# FINANCIAL TIMES

World Business Newspaper http://www.FT.com

FRIDAY AUGUST 28 1998


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The myths and the mummies

**Games software**
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## WORLD NEWS

### Nairobi bombing suspects flown to US to face trial

Two suspects in the bombing of the US embassy in Kenya, including one who told the FBI the attackers intended to be martyrs, have been flown to the US for trial. Page 5

**European flight delays worsen**
Flight delays at European airports hit a nine-year peak in June, according to the Association of European Airlines, which urged politicians to take action to solve the problem. Page 4

**Probe ordered on Gore**
Janet Reno, the US attorney general, opened a preliminary investigation into possible fund-raising abuses by vice-president Al Gore during the 1996 election campaign. Page 4

**Zimbabwe boosts Congo force**
Zimbabwe said it was increasing its troop contingent in the Democratic Republic of the Congo, where about 600 Zimbabwean soldiers are at present backing President Laurent Kabila. Rebels keep up pressure, Page 5

**Bomb explodes in Tel Aviv**
A bomb exploded in central Tel Aviv, injuring at least 18 people on a busy street near the city's main synagogue. Braced for more attacks, Page 5

**Brunei prince seeks injunction**
Prince Jefri of Brunei sought a UK High Court injunction to prevent financial information about his private affairs reaching the Brunei authorities. Page 16

**Another clash looms over bananas**
The US and Latin American banana producers have asked the World Trade Organisation to intervene again in a long-running row over the European Union's banana import policies.

**Cyprus missiles to go ahead**
Greece and Cyprus said Russian-made S-300 missiles would be deployed on the divided island in November, bringing closer the possibility of conflict with Turkey.

**Genetic crop protestors ousted**
Police evicted demonstrators from a government-run agricultural research field in Lüneburg, Germany, that they occupied for a week to protest against genetic engineering.

**Record field for German election**
Germany's federal election has attracted a record number of candidates this year, with 5,062 competing for 656 Bundestag seats.

**Serbs halt refugee aid**
Serbian police turned back a UN aid convoy carrying supplies for 30,000 refugees from the Kosovo conflict.

**Iraq says Ritter was a spy**
Iraq said the American UN weapons inspector Scott Ritter resigned after Baghdad had exposed his links with the Israeli intelligence service Mossad and the CIA. Iraq policy questioned, Page 5; Editorial Comment, Page 15

**President intervenes on Auschwitz**
Poland's President Aleksander Kwasniewski denounced as politically motivated a campaign by radical Catholics to erect crosses at the former Nazi death camp of Auschwitz.

**Bid to avert 'cyber trade war'**
US and European Union officials are to intensify efforts to avoid a "cyber trade war" over the EU's directive on data protection. Page 4

## BUSINESS NEWS

### Canada tries to halt dollar's fall with interest rate rise

Canada's central bank raised its overnight interest rate by a full percentage point to 6 per cent in an attempt to stem deteriorating confidence in its dollar. The Toronto stock market fell on concerns that higher rates would choke the economy. Page 16; Editorial Comment, Page 15; Currencies, Page 25

**Framatome**, the French connector company, is acquiring Berg Electronics of the US in an agreed deal valued at $1.85bn, including assumption of debt. Page 20

**Rolls-Royce** shares came under pressure as analysts shrugged off interim results of a 10 per cent rise in earnings per share and focused on the outlook for aircraft purchases. Page 17; Comment, Page 22

**Lattice Semiconductor**, a microchip design company based in Oregon, is to open its first European research and design centre in south-west England. Page 6

**Skanska**, the Swedish construction group, reported a first-half rise in operating profits from SKr974m to SKr2.72bn ($326.6m) following an upturn in building projects. Page 18

**Banco Santander** of Spain, which lost 29 per cent of its stock market value in a week because of worries about its involvement in Latin America, said it was still "on track" to meet 1998 targets including raising earnings per share by more than 22 per cent. Page 18

**Independent Newspapers**, the Irish group that in March took control of the Independent and the Independent on Sunday in the UK, reported a fall in first-half pre-tax profits to I£34.1m ($47.4m) from I£39m in the period last year as a result of currency factors and acquisition costs. Page 22

**Malaysia fell sharply into** recession in the second quarter, with its economy contracting by 6.8 per cent. Page 5

**Starwood Hotels** and Resorts Worldwide, US owner of the Sheraton and Westin chains, saw shares tumble 7 per cent after slashing its dividend from 52 cents a quarter to 15 cents, and announcing a $1.2bn charge for reorganisation. Page 20

**Koor Industries**, Israel's biggest holding company, said economic slowdown and falling telecommunications sales sent net income falling to $45m in the first half from US$90m last time. Page 20

**Bulgaria** aims to complete privatisation of its telecommunications utility by the end of the year as part of reforms required by the International Monetary Fund and World Bank. Page 5

**Boeing** suffered a setback as the latest version of its Delta rocket, the Delta III, exploded one minute and 20 seconds into its inaugural commercial flight. Page 4

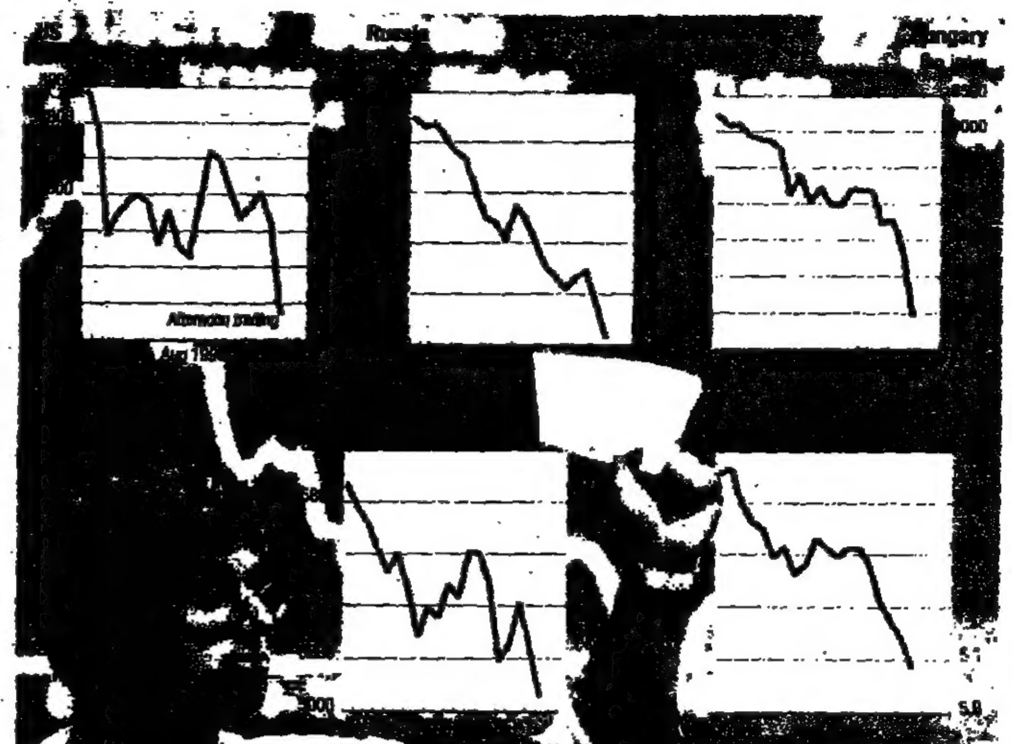
**Long Term Credit Bank** of Japan would fail without an injection of public money, said Kiichi Miyazawa, finance minister. Page 5

**Lex on Novartis**
Post-merger honeymoon is over
Page 18

# Russian crisis hits world markets

## Investors sell stock for bonds amid fears over political stability and rumours that Yeltsin may quit

By Simon Davies in London, William Lewis and John Labate in New York and Chrystia Freeland in Moscow




Russia's worsening financial crisis sent shockwaves around the world's markets yesterday as fears for the country's political stability deepened.

Japanese stocks hit a six-year low and the US's Dow Jones Industrial Average was down by 353 points, or 4 per cent at its lowest.

Bank shares suffered as investors responded to fears over trading losses and loan provisions in the developing world. German banks alone are estimated to have more than $30bn exposure to Russia. Deutsche Bank shares continued to plummet, falling DM6.80 – or 5.5 per cent – to DM115.80 ($64.33).

"We are seeing a global liquidity crunch, and the only solution is for the developing world to reduce interest rates if we are to avoid another 1987-style crash," said Ian Harnett at BT Alex Brown. He predicted that pan-European stock markets would fall another 10 per cent.

The UK's FTSE 100 index fell 176.9 points to 5,368.5, its second-largest fall in five years in points terms. Continental markets were also down by over 3 per cent, with Switzerland and Spain falling by more than 5 per cent.

David Bowers, European equity strategist at Merrill Lynch, said: "Every man and his dog was overweight in European equities, as it was perceived to be the great safe haven. But it is not, so they are now getting out of equities and into bonds." German government bonds, in fact, hit another post-war record low yield of below 4.2 per cent for the 10-year benchmark bond, while UK gilts also performed strongly.

On Wall Street the flight to quality continued as the benchmark 30-Year Treasury bond rallied almost a full point, sending the yield to a new record low of 5.365 per cent. US stocks went into free fall, with the Dow Jones Industrial Average below the 8,200 level by midday. Sentiment worsened on a new Russian-related corporate casualty. Republic New York, the 21st largest US bank, said its credit and investment losses in Russia would force it to take $155m in charges in the coming quarter.

Republic's news triggered fresh selling in banking and other financial stocks. Chase Manhattan's stock was down $4⅝, or more than 7 per cent, to $59⅞. Citicorp fell $7 to $126. Citicorp said that as of the end of June its total cross border oustandings to Russia, including trading, totalled $420m. "It has not appreciably changed from that time," the bank added.

In Russia the central bank suspended all foreign currency trade on the Moscow Interbank Currency Exchange for the second day in an effort to stem the rouble's fall. The exchange will be closed again today.

But the central bank's move failed to halt the rouble's free fall on the streets, where exchange offices were selling dollars for Rbs 13, more than double the rate earlier this month. Even at that price dollars were scarce in the capital and almost impossible to buy in the provinces.

The stock market, where trading has nearly ground to a halt because of a shortage of buyers, fell by nearly 20 per cent to its lowest recorded level since the Russian trading system opened in September 1995.

The Communist-dominated parliament demanded that President Boris Yeltsin surrender much of his constitutional authority to the legislature. In yesterday's volatile conditions it was enough to spark rumours that Mr Yeltsin was on the verge of resigning.

The parliament, whose approval is required to confirm Victor Chernomyrdin as prime minister, is also calling for a softening of monetary policy and tough controls on financial markets. Mr Chernomyrdin, canvassing support, met with Communist leaders and with former general Alexander Lebed.

**INSIDE**



# Muscovites' faith in capitalism is crushed

By Chrystia Freeland and Charles Clover in Moscow

"The state stole our money," said Roman, a 32-year-old Moscow marketing director, who has helplessly watched $80,000 drain out of his savings account as the rouble has more than halved in value over the past 10 days.

Roman, who held a 10-hour vigil yesterday outside a branch of SBS-Agro, the second most popular savings bank, in a futile effort to retrieve his money, said his faith in Russian capitalism had been crushed.

"We believed in market reforms. We trusted the promises of our government and our central bank when they said, 'Go to the commercial banks, they will give you higher returns than the state'," Roman said. "But this is a lesson – I will never again put my money in a Russian bank."

But Roman and the 50 other aggrieved depositors patiently waiting for their money are the lucky ones. According to poll data, only one in four Russians claims to have savings at all. The sum of all household deposits is roughly 130bn roubles, or 4 per cent of gross domestic product, meaning the average depositor holds only 3,500 roubles ($350).

Most Russians are too poor – or too suspicious – to have been affected by the crisis in the banking system. The best-off are those who hold some of the $35bn in hard currency.

The millions of workers whose wages have been unpaid for months, or even years, have been scratching out a diet in garden plots and living on their parents' pensions. As the rouble dissolves, the prospect of a pay-off of accumulated wages is vanishing.

"All my workers have been treating the company as a sort of bank, and seeing their unpaid wages like a kind of savings," said Joseph Piradashvili, director of Zapolarneftegaz, a gas exploration company north of the Artic circle. "Now, in dollar terms, their savings have halved and soon the price of food, which must all be imported, will rise."

Echoing the shortage-stricken Soviet days, those Russians who have cash are finding that there is less to buy. Some shops, and even traders in city bazaars, yesterday locked their doors to Moscow customers. The merchants are waiting for the currency to hit bottom before they resume trade.

"We lost $1,800 on Tuesday alone because the rouble fell, so now we just sell for a few hours and then go home," said Lena Burmistrova, who sells Austrian shoes at a stand in Luzhniki, one of Moscow's most popular markets. "Probably Luzhniki will just close down for a week or 10 days. Everyone is in horror. No one knows what to do."

Ironically, only the people who had already been reduced to penury by the market reforms are finding something to cheer about.

Liuda, a 47-year-old bureaucrat in Vladivostok, Russia's far eastern outpost where water is rationed and black-outs are routine, lives on her mother's meagre pension. She thought she would never see a pay cheque again, but now she has some hope. "Maybe now they will print some roubles and I will get my salary. You can't live without money and now maybe I will get a little bit."

# Ex-Cendant chiefs blamed over scandal

By William Lewis in New York

Walter Forbes and Kirk Shelton, former senior executives at Cendant, the US direct marketing and franchising group, should bear some of the responsibility for the $500m accounting scandal that has wracked the group, according to a report by the company's audit committee published yesterday.

It says that Mr Forbes and Mr Shelton had a responsibility "to create an environment in which it was clear to all employees at all levels that inaccurate financial reporting would not be tolerated".

However, evidence uncovered by the committee showing how many of the senior accounting and financial staff "participated in irregular activities" suggests that "an appropriate environment to ensure accurate financial reporting did not exist".

The report also states that the size of the accounting irregularities "suggests that they did not adequately inform themselves as to the sources and level of profitability".

Cendant was formed last year through the $11bn merger of CUC International and HFS, the hotel and real estate franchising company headed by Henry Silverman. Mr Forbes was chairman and chief executive of CUC and Mr Shelton was president and chief operating officer. Concerns about accounting irregularities at CUC first surfaced in April. In July, both resigned from the Cendant board.

The long awaited audit committee report, which is being sent to the Attorney for the District of New Jersey and to the Securities and Exchange Commission, the US regulatory body, states that CUC's income, excluding merger-related and unusual charges, was inflated by approximately $500m before taxes during the period 1995-1997.

It was carried out "through a wide range of irregular accounting entries directed by CUC corporate executives" at its headquarters. These were then "imposed upon personnel throughout the company in an escalating attempt to ensure that CUC's earning would match analyst expectations".

The report stops short of alleging that the Mr Forbes and Mr Shelton directed accounting irregularities to be entered.

Instead it names Cosmo Corigliano, former chief financial officer of CUC, and Anne Pember, former controller of CUC.

Mr Shelton and Mr Forbes were both interviewed by the audit committee and denied knowledge of any accounting irregularities.

Cendant is still investigating Mr Forbes' expenses, including $550,000 in cash and $1.5m in allowances. In morning trading on Wall Street its share price fell $2⅛ to $12⅝, down from a high in April of $41⅝.



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## WORLD MARKETS

| STOCK MARKET INDICES | | |
|---|---|---|
| **New York Lunchtime** | | |
| Dow Jones Ind Av | 8241.17 | (-282.18) |
| NASDAQ Composite | 1696.36 | (-69.75) |
| **Europe and Far East** | | |
| CAC40 | 3745.84 | (-187.53) |
| DAX | 5060.84 | (-170.77) |
| FTSE 100 | 5368.5 | (-176.9) |
| Nikkei | 14,413.79 | (-462.24) |
| **US Lunchtime RATES** | | |
| Federal Funds | 5.592% | |
| 3-mth Treas Bills: Yld | 5.03% | |
| Long Bond | 101⅞ | |
| Yield | 5.369% | |
| **OTHER RATES** | | |
| UK: 3-mo Interbank | 7⅞% | (7⅞%) |
| UK: 10 yr Gilt | 113.8906 | (114.020) |
| France: 10 yr OAT | 107.24 | (107.31) |
| Germany: 10 yr Bund | 108.15 | (108.29) |
| Japan: 10 yr JGB | 112.36 | (same) |
| **NORTH SEA OIL (Argus)** | | |
| Brent Dated | $11.765 | (12.05) |

| GOLD | | |
|---|---|---|
| **New York Comex** | | |
| (Aug) | $278.7 | (282.2) |
| London | $278.95 | (283.75) |
| **EXCHANGE RATES** | | |
| **Dollar** | | |
| **New York Lunchtime** | | |
| £ | 1.650 | |
| DM | 1.80005 | |
| FFr | 6.037 | |
| SFr | 1.4845 | |
| Y | 142.66 | |
| **London** | | |
| £ | 1.6485 | (1.6364) |
| DM | 1.8070 | (1.8078) |
| FFr | 6.0605 | (6.060) |
| SFr | 1.4981 | (1.505) |
| Y | 142.89 | (144.853) |
| Tokyo Close | | Y 142.600 |
| **Sterling** | | |
| DM | 2.9782 | (2.9590) |

# WORLD NEWS

RUSSIAN CRISIS

**DUAL CHALLENGE** DEMANDS FOR WEAKER PRESIDENTIAL POWERS AND A FLOOD OF INFLATIONARY CREDITS

# The parliamentary opposition scents a government in retreat

By Chrystia Freeland and Charles Clover in Moscow

Victor Chernomyrdin, Russia's acting prime minister, yesterday held desperate negotiations with a parliamentary opposition which is demanding a fresh wave of inflation policies and severe currency controls as the price for its support.

As the newly installed government flirted with a sharp change in economic course and the country's financial collapse deepened, President Boris Yeltsin retreated to his country home.

Mr Yeltsin's continued absence prompted rumours that he is on the verge of stepping down. Those reports were swiftly denied by the Kremlin, but the president's administration could not brush away the more concrete threat posed by a multi-party parliamentary commission, which is seeking to water down Mr Yeltsin's vast constitutional prerogatives.

The dual challenges to Russia's current political and economic order came on the heels of a meeting between Mr Chernomyrdin and Michel Camdessus, managing director of the International Monetary Fund, on Ukraine's Black Sea coast.

There were no immediate reports of the outcome of the meeting, but the IMF, which has bet heavily on Russia's reform effort, cannot be pleased with the increasingly radical economic proposals of the country's policy makers.

After three years of tight monetary policy and a commitment to open markets, the leftist-dominated parliament is now demanding that the government issue a flood of inflationary credits and impose tight controls on the financial system.

These proposals are nothing new for the Communist opposition. But, in a sign of the remarkable change in Russia's political climate in the wake of this month's financial crisis, even the pro-government faction in parliament is backing the change in economic course.

The parliament's economic demands have extra bite because Mr Chernomyrdin, who was reappointed prime minister this week just five months after being sacked, needs legislative approval to be confirmed in his new job.

Gennady Selezniev, the Communist speaker of the parliament, said that the Duma, the lower chamber of the legislature, would withhold its backing of the new premier unless Mr Yeltsin signs an package of economic measures which include a "controlled credit emission" of 30bn-50bn roubles ($2bn-$3.4bn at yesterday's black market rate in Moscow).

"I don't think it's dangerous to have a monetary emission of rational proportions, under control, and for one purpose only: to settle payment for state orders," Mr Selezniev said in an interview with the Financial Times. "I am not talking about huge numbers, only 30bn to 50bn roubles. Its not an astronomical figure."

"The physical absence of money in our economy is already the main centre of economic tension... Someone who is selling goods can't receive payment because there is no money, physically no money," he said.

### 'The physical absence of money is the main centre of economic tension'

The economic programme, which threatens to plunge Russia into a new wave of hyper-inflation, is backed by pro-government parliamentarians who just a few months ago were ardent supporters of financial stabilisation and open markets.

"The discussion includes specific administration controls to the currency situation," Alexander Shokhin, head of the Our Home is Russia parliamentary party said. Our Home is Russia was formed to support government policies and is led by Mr Chernomyrdin.

"There will be demand for control on the currency market: administrative control, and perhaps even a temporary closure of the market, with a cancelling of internal convertibility of the rouble," Mr Shokhin said.

The parliament's aggressive economic proposals threaten to exacerbate the already tense political situation in the country. Mr Selezniev said the parliament was prepared to risk dissolution and fresh parliamentary elections in an effort to force the Kremlin to back its economic plan.

"If the anti-crisis programme is not supported by the president, then at least the three leftist factions of the Duma will reject a coalition government, will reject confidence in Mr Chernomyrdin, the president can name him again, and we will reject him again... after the third rejection, the president must dissolve the Duma," Mr Selezniev said.

Such invective is not unusual from Russia's Communist opposition, but in the past the parliament has invariably caved in to the will of Mr Yeltsin, who enjoys a strong constitutional advantage in any stand-off.

However, this time things may be different. Sensing the weakness of the president and emboldened by the failure of the market reforms they have long criticised, parliamentarians may be more willing to risk a confrontation with the Kremlin.

"Already, the decisiveness of the deputies is such that the Duma is ready to go to dissolution," Mr Selezniev said.

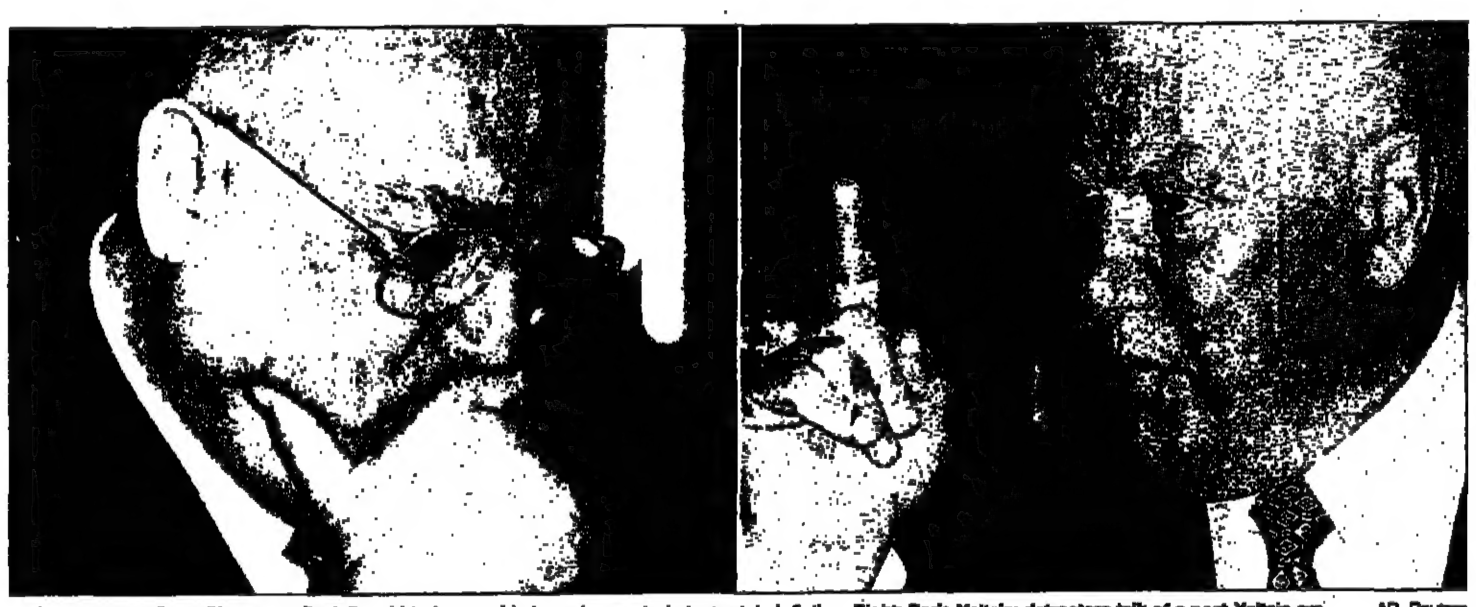
The game of brinkmanship could begin next Monday, the deadline the Kremlin has set for the Duma's first vote on Mr Chernomyrdin's candidacy.

For now the Kremlin, struggling to maintain Mr Yeltsin's viability, is taking a conciliatory stance on parliament's radical economic and political proposals.

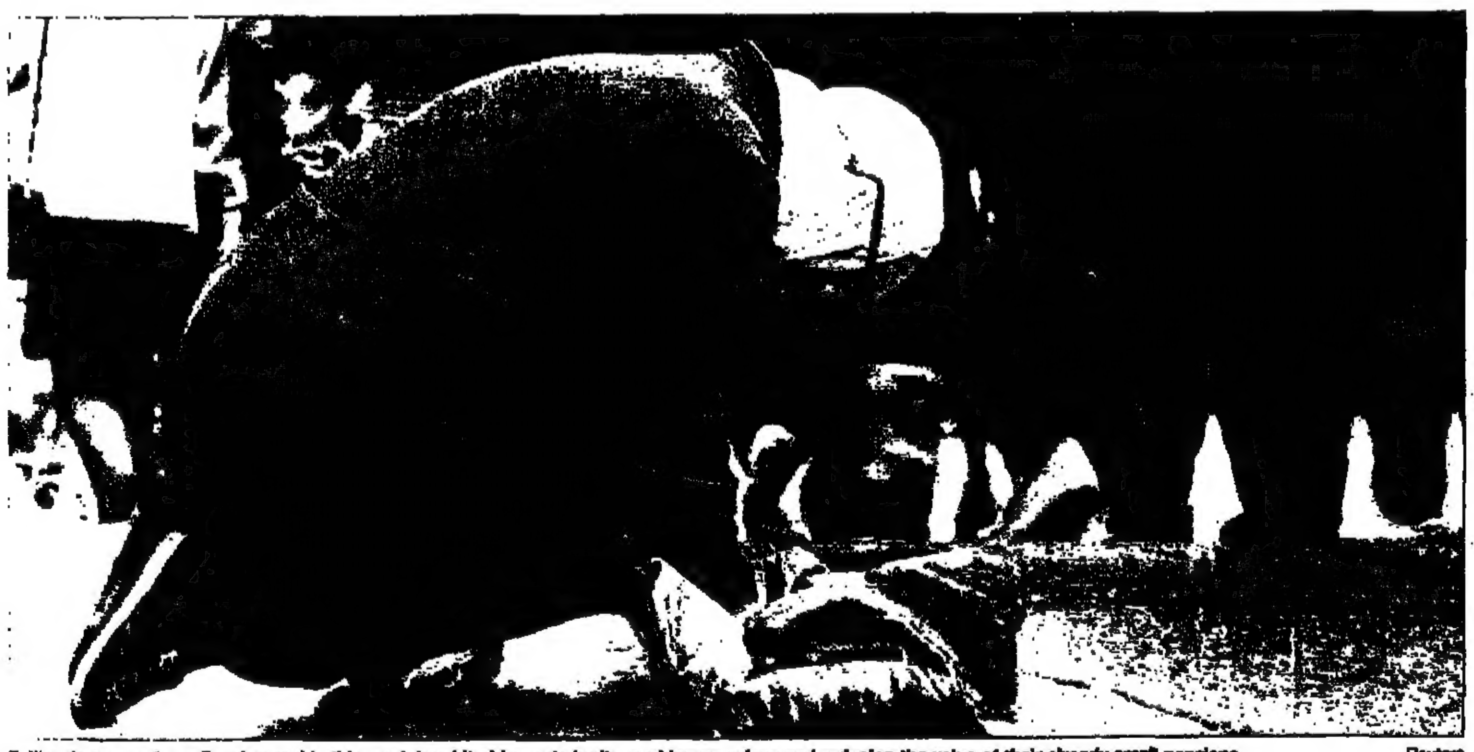
The leftist opposition, meanwhile, is taking great delight in the chance the financial crisis has given them to attack their reformist arch-enemies and call for a modified return to the past.

"My point of view is that Chernomyrdin's government undertook the mistaken monetarist policies of [Yegor] Gaidar, which Russia began in 1992, and which Chernomyrdin continued, and [Sergei] Kiriyenko, in turn, continued. And that [the financial crisis] was the dead end which we would have arrived at, sooner or later," Mr Selezniev said.

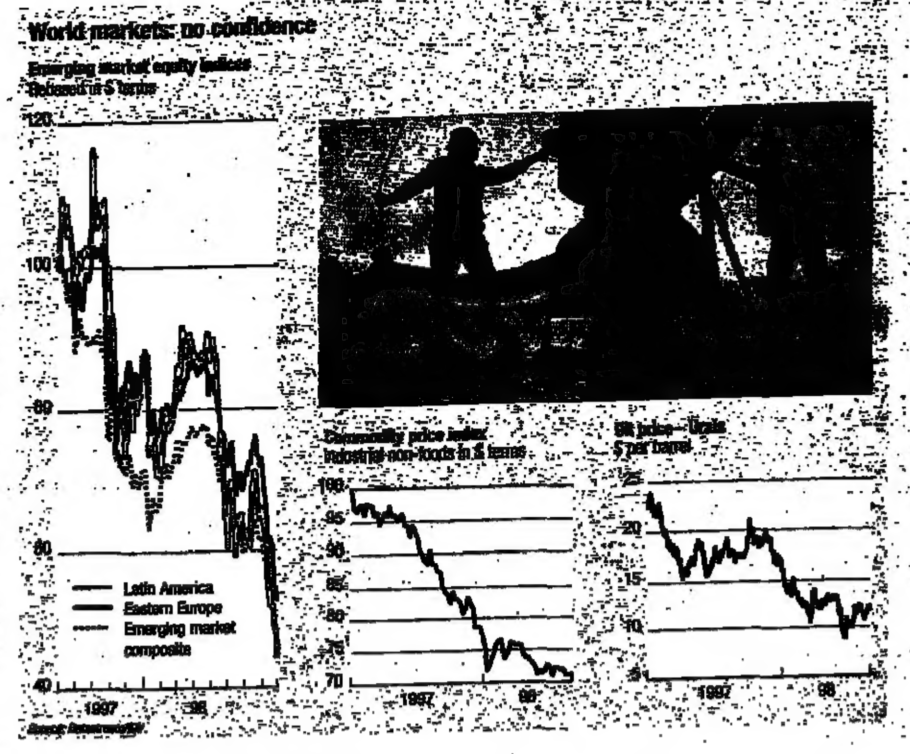
"First of all, we must increase the role of management of the economy. I am convinced that if we do not do this, then the situation will not be corrected. Of course, we can always give more credits, take measures to stabilise the rouble, but these will only be temporary. The main thing is to grow the national economy."



Under pressure: Victor Chernomyrdin, left, said to be considering price controls to contain inflation. Right: Boris Yeltsin: detractors talk of a post-Yeltsin era AP, Reuters



Falling fortunes: the collapsing rouble this week has hit old people badly, pushing up prices and reducing the value of their already small pensions Reuters




**LATIN AMERICA** THE FALL-OUT GROWS

# Spotlight on Venezuela and Brazil

By Richard Lapper in Caracas

At times over the past year, it has seemed as if Latin America might escape relatively unscathed from the turbulence in international financial markets.

But the effective devaluation and default in Russia have had a devastating effect on investor confidence towards the region, with stock and bond markets plunging over the past few days.

The stock market rout has been extensive, affecting all markets and even the shares of Spanish companies, such as Banco Santander and Banco Bilboa Vizcaya, which have been big investors in Latin America in recent years.

The decline in the bond markets may have the greater significance. Yields on many Latin bonds have risen to their highest levels since the "tequila crisis" of 1995, which means that the cost of financing looming external deficits will increase sharply.

The spotlight has been on two countries: Venezuela and Brazil. Even before this month's developments in Russia, Venezuela was under severe economic pressure because of both the fall in the oil price, which reached a 10-year low two weeks ago, and the acute political uncertainty ahead of presidential elections in December.

On the political front, the strong opinion poll lead enjoyed by Hugo Chavez, a leftwing former lieutenant-colonel who led an unsuccessful military coup in 1992, has caused unease in the business community.

Since Russia's devaluation, Venezuela's economic prospects have dipped further and there has been speculation the government may be forced to devalue its currency, the bolivar.

"A devaluation is almost inevitable, unless the oil price recovers," says Francis Freisinger, head of Latin American economics at Merrill Lynch, the US investment bank, in New York. "The only question is when."

The prices of Venezuela's international bonds have slumped to levels that imply investors are expecting a default. Its discount bonds are now yielding over 35 per cent, and plans to raise a further $1.4bn on international capital markets now look hopelessly unrealistic, complicating the government's parlous fiscal position.

Venezuela's size, however, means overall that it is less of a worry than Brazil which generates more than 40 per cent of regional gross domestic product. Investors have been worried for some time about Brazil's high fiscal deficit (7 per cent of GDP in the year to May) and a sizeable shortfall on the current account.

But the rise in Brazil's international bond yields is increasing fears that it will find it more difficult to secure all the capital it needs to meet a 1999 financing requirement (current account deficit plus debt amortisation) estimated by analysts at $55bn (£33.7bn).

### The spotlight has been on Brazil and Venezuela

High reserves and strong inflows of foreign direct investment, highlighted by the successful sale last month of Telebrás, its telecoms company, provide Brazil with important cushions. But Mr Freisinger says this may not be enough. "Even with massive foreign direct investment, this is a challenging sum to raise."

These concerns are for the moment at least completely overshadowing the more positive aspects of the continent's recent economic record, such as the success of counter-inflation programmes and the greater resilience of banking systems.

"When the dust begins to settle, people will begin to see these valuations in the equity and bond markets have little to do with reality," says Peter West, chief economist at BBV Securities in London. For the moment, though, fear is dominant, as investors rush for the exits.

CENTRAL EUROPE

# Region's growth forecasts revised down

By Kevin Done
East Europe Correspondent

Forecasts for economic growth across central Europe are being revised downwards in response to the crisis in Russia.

The impact will vary depending on the extent of each country's financial and trade links, with economic activity in Bulgaria, the Baltic states and Ukraine likely to suffer significantly. The effect on the Czech Republic, Hungary and Poland should be more limited.

Whereas Russia accounted for about 5 per cent of Hungary's exports and 6.5 per cent of Poland's exports last year, about a third of Ukraine's exports came from trade with Russia. This accounted for about 12 per cent of Ukraine's gross domestic product.

In Kiev the crisis has forced trade on the foreign currency exchange to be suspended.

The Baltic states are also exposed significantly to the Russian economy, which still accounts for close to a quarter of Lithuanian and Latvian exports.

Of the three most important economies of central Europe, Hungary is potentially the most exposed as its exports to Russia account for 2.5 per cent of its GDP, compared with 1.5 per cent for Poland and the Czech Republic.

All the countries in the region have been hit hard by the generally negative sentiments of portfolio investors towards emerging markets, irrespective of economic fundamentals. And the economic effects on the Czech Republic, Hungary and Poland will be much larger if growth in the EU suffers as a result of the Russian crisis.

Aleksander Kwasniewski, Polish president, warned yesterday that the country must pursue strict and responsible economic policies during the mounting Russian crisis. "We must not add our own virus to viruses coming from abroad. We must be persistent about reforms, financial discipline and measures increasing exports," he said.

In the past two weeks the problems facing Russia have also cut a swathe through the financial markets of central Europe. In Poland share prices have declined sharply, falling yesterday by about 6 per cent to a 22-month low.

Stanislaw Gomulka, a senior adviser in the Polish Finance Ministry, said Russia's crisis might cut Poland's GDP growth next year by 1 percentage point from the government's forecast growth of 6.1 per cent.

Mr Gomulka said that declining industrial output and demand in Russia and other countries of the former Soviet Union would hit Polish exports.

In Hungary the forint has fallen to record lows this week due to an outflow of capital, with foreign investors selling the currency to cover losses in Russia. The selling has prompted intervention by the Hungarian central bank.

Government bond prices continued to slide yesterday, as foreign investors increased their sales.

**FINANCIAL CRISIS** IT IS SEEN AS POSING BY NO MEANS THE SAME RISKS AS IN THE 1980S BECAUSE BANKS ARE BETTER CAPITALISED

# Illness less serious but more contagious

By Stephen Fidler in Washington

Investors may be worried about Russia generating a new phase of a worldwide financial crisis, but the threat to the world's financial system is not yet seen to be as serious as that posed by the Latin American debt crisis of the 1980s.

Mr Charles Dallara, managing director of the Institute of International Finance, a Washington-based think tank, said the current Russian crisis, with the turmoil in Asia, did not yet equal the threat to the world financial system posed by Latin America's debt crisis of the 1980s.

Many analysts now conclude that if the debt owed by Latin American governments to US, European, and to some Japanese banks in the 1980s had been recognised at its market value, many of the world's main banking institutions would have been bankrupted by that crisis.

But central banks and governments in the industrialised world acted to make sure the market value of the loans was not reflected in banks' balance sheets and the international banking system was able to ride out the crisis, until a longer-term solution to the problem was found in the form of the so-called Brady Plan in the late 1980s.

The current crisis offers nowhere near the same kind of risks to the world's banking system, because banks hold nowhere near the same volumes of debt, in general, and because they are mostly better capitalised.

### This time, holders of the debt in Asia and Russia are more widely dispersed

The international holders of the debt in Asia and Russia are much more widely dispersed, both for better – the viability of big deposit taking institutions is not threatened – and for worse – the ability to co-ordinate a creditor response to a crisis becomes more difficult.

Mr Dallara points out the changes in the global financial markets since the 1980s means that losses to financial institutions are recognised immediately. This means financial problems are transmitted much more quickly from one financial system to another than in the 1980s.

For instance, large international investors, such as hedge funds, may well seek to preserve liquidity – needed in part for potential withdrawals – in the face of losses in Russia by selling financial instruments in economies unconnected to Russia in any significant sense, such as Brazil.

In other words, the disease may be less virulent than in the 1980s but it is far more contagious. Another difference with the 1980s is the scope for correction of the US financial markets. The Latin American debt crisis followed a battering taken in US financial markets from the high interest rates of the early 1980s.

In the late 1990s, this contagion is taking place at a time when the US stock market, in the view of many, is ripe for correction.

In a more narrow sense, creditors have criticised the Russian government's unilateral moves towards its foreign debt restructuring, and contrasted than unfavourably with the way the South Koreans dealt co-operatively with their debt problem in the early 1990s.

This unilateral approach, which has its parallels in efforts by countries such as Brazil in the mid-1980s to resolve their debt questions unilaterally, will, creditors say, make it harder for the Russian government to secure future finance from the private sector.

But there are few parallels in recent history where a large debtor has set about restructuring its debts amid such political and economic turmoil.

**BANKING** THE CURRENCY PROTECTION PUT IN PLACE HAS NOW EFFECTIVELY BEEN DECLARED NULL AND VOID

# CSFB traders left seething after losing fortune

By John Thornhill in Moscow

A year ago, the Moscow trading floor of Credit Suisse First Boston was buzzing with activity and optimism as the Russian stock market soared. Yesterday, it was occupied by seething bankers on a "crusade" to minimise their losses and salvage the bank's pride.

As the biggest foreign investment bank in Russia, CSFB made a pile of money when the markets were booming and has now lost a large fortune following the financial crash.

Estimated losses run into the hundreds of millions of dollars.

Andrew Ipkendanz, head of global emerging markets, freely accepts that most of the bank's losses were the result of bad decisions. "We took a bet on our judgment that the government could manage its fiscal accounts and we were wrong," he says.

But what incenses him is that the currency protection that the bank thought it had put in place has now effectively been declared null and void.

A 90-day moratorium imposed by the central bank has barred all Russian banks from honouring an estimated $10bn of forward dollar contracts to foreign counter-parties.

It has also prevented western creditors from seizing the assets of the bankrupt banks.

Mr Ipkendanz says that forced conversion of foreign bond holders into longer-term government paper has made them involuntary "equity" holders in the rouble.

And the tough-talking Mr Ipkendanz claims he is going to be a "militant" shareholder demanding that the central banks acts sensibly to protect the value of the rouble.

**A moratorium which is to last 90 days has barred all Russian banks from honouring an estimated $10bn of forward dollar contracts to foreign counter-parties**

A recent research report from CSFB savaged the central bank for injecting liquidity into the banking system – providing domestic banks with an opportunity to flee into dollars – and "effectively allowing the plundering of reserves".

"The inescapable conclusion is that the IMF has no choice but to become more actively involved in the management of monetary and exchange rate policy," it said.

Mr Ipkendanz said: "We have been forced to take a risk that we never wanted to take in the first place. We now have an illiquid, long-term rouble asset which we simply cannot hedge.

"But what we are really jumping up and down about is the debt moratorium imposed by the central bank," he says.

"What we are calling for is the government to say that all foreign exchange contracts are legally enforceable.

"And second that there will be no frustration of these contracts as a result of the debt moratorium."

Mr Ipkendaz says anyone who invested $1m in the treasury bill (GKO) market at the beginning of the year would have seen the value of their holding fall to $500,000 following the devaluation of the rouble.

The value would have fallen a further 70 per cent to $150,000 following the forced GKO conversion.

The investor might have thought that his "insurance contract" in the form of his forward contract would now have gone up in value from nothing to $500,000. But the moratorium has stopped his counter-party paying out. CSFB, for one, is determined to ensure enforcement of these contracts even if it means putting some "oligarchs" out of business.

# Moscow claims debtors owe it $148bn

By Jeremy Grant

If Russia's anxious creditors are tempted to call in their chips, they can take some comfort from the knowledge that Moscow has a long list of its own debtors.

Most of them were client states of the former Soviet Union or friendly allies, into which Moscow pumped billions of Soviet roubles. Often, the money went on financing large showcase projects with little economic value.

Moscow claims that the total amount owed is $148bn. But western economists dismiss this amount, saying it is impossible to pin down a number, as there is no agreement on how to value the Soviet-era rouble.

Successive post-Soviet governments have made no secret of their desire to get that money back and have pressed individual states to pay up. Topping the list are Cuba, Vietnam, India, Iraq and states in the Commonwealth of Independent States.

Russia has made little progress and has resorted to writing off some debt owed by African states. However, Moscow acquired some leverage last year when it joined the Paris Club group of creditor governments.

This gives Russia a forum in which contentious issues such as the rouble exchange rate can be settled. And it means Moscow can call on the Paris Club separately to put pressure on its debtors to repay.

"Before, Russia was applying pressure unilaterally and it wasn't working. Over time, definitely it [membership] will help. The timeframe that they were looking for was over 20 years so they won't get it all back any time soon. But at least there will be pressure," said Oksana Antonenko, research associate at the International Institute for Strategic Studies.

Moscow said last year that it would step up efforts to pursue debtors, starting with Algeria and Vietnam. The communist government in Hanoi owes Rbs11bn and is repaying some of it in commodities.

Moscow claims that the amount Hanoi owes is equivalent to $17bn, but Vietnam says the debt is worth only $1bn. Iraq is understood to owe about $6bn.

**DEBT AND EQUITY** ECONOMISTS TRY TO PUT FIGURE ON LOSSES

# World's exposure exceeds $200bn

By Clay Harris and Jeremy Grant

The outside world's debt and equity exposure to Russia exceeds $200bn, according to the Institute of International Finance, a Washington-based research body owned by leading banks.

The figure takes in $194bn in all external debt, and its $11bn estimate for accumulated foreign direct investment and investment in Russian equities at the end of 1997. But exposure does not necessarily equal loss, and bankers and economists were trying yesterday to put a figure on how much has been, or will be, "lost".

ING Barings, the Dutch-owned investment bank, estimates that about $118bn in wealth has been "destroyed" in Russia since the beginning of 1998. Part of this figure includes money lost by Russians, according to Philip Poole, director of eastern European research.

He broke down the year-to-date loss of wealth: a $31bn fall in the value of outside debt, an estimated $30bn loss in value on GKOs (rouble-denominated treasury bills) and a $57bn fall in stock market value.

Russia's exposure to foreign creditors in various types of hard currency-denominated bonds is $54.5bn, economists and bankers said. That does not include $40bn in GKOs that are the focus of Tuesday's forced debt restructuring.

The scheme should ease the crippling burden of debt repayments, saving Rbs250bn, Russian officials say. But it has sparked fierce protests from foreign investors as it means they will have to swap high-yielding GKOs, and similar paper known as OFZs, into longer dated bonds that earn less.

The $54.5bn figure does include new eurobonds – foreign currency bonds – that were issued as a result of an earlier, voluntary exchange of the same T-bills. It also includes Prins and IANs – restructured Soviet-era debt principal and interest – as well as repackaged rouble debt known as MinFins. MinFins, amounting to $8.7bn, are the focus of fresh worries over a possible sovereign default by Russia. By forcing through its GKO exchange, the government may have left itself open to triggering a "cross-default" on MinFins.

Another area of concern is billions of dollars of forward foreign exchange contracts bought by foreign investors in the GKO market to protect themselves against the depreciation of rouble.

The Russian central bank says $10bn in such contracts is outstanding. Most were bought from Russian banks but are subject to a 90-day debt moratorium imposed recently. Moscow may also have depleted foreign exchange reserves, selling Russian banks cheap hedging products to protect from forward contract exposures.

Holders of Russian debt may find it hard to unload their positions at any price, according to Mr Poole. Proprietary trading desks and high-yield investors had also been hit hard.


A Coca-Cola plant in Moscow: foreign investors are putting on a brave face despite the country's financial turmoil

**FOREIGN MANUFACTURERS** INDUSTRIALISTS ACKNOWLEDGE PROBLEMS BUT SAY THEY ARE EXPERIENCED LONG-TERM INVESTORS

# It's tough but we're staying, say companies

By Our Industrial and International Staff

European companies with manufacturing interests in Russia yesterday put a brave face on the country's financial turmoil, saying that they were long-term investors and that there would continue to be demand for their products.

Most acknowledged life had become difficult for their Russian operations and said they were watching the situation closely.

Hakan Werner of BOC, the UK industrial gases group which owns an oxygen factory in Russia, said: "The management team is now in a continuous crisis meeting, working out how to get product out of the gate, and how to collect money as fast as possible."

The factory, which has ended all credit arrangements and is demanding pre-payment, expects a slowdown in orders. But no one was scared, Mr Werner said. "There have been so many changes in their lives and their economy. This is just one more crisis. They will tough it out."

Unilever, the Anglo-Dutch group which has a personal products factory in St Petersburg and a margarine plant in Moscow, said consumer goods sales had virtually halted in the past few days and Unilever's customers were not re-stocking.

But Unilever was a long-term investor, with plenty of experience in economies going through financial crises, and saw no reason to alter its approach.

Similar commitment was expressed by Allied Domecq of the UK, which said its Baskin-Robbins ice-cream was aimed at higher-income customers expected to be less affected by the crisis. Cadbury Schweppes, with a confectionery plant near St Petersburg, said: "We're in it for the long haul. We are aware of the economic turmoil but Russia is a big and important market for us."

Siemens, the German electrical and electronics group, said the situation was unsettling and unpredictable but would have only a small impact on its business. Siemens said it had no plans to stop doing business in Russia and took a long-term view of the market.

Shell, one of a number of foreign oil and gas companies with Russian interests, said it would have "no knee-jerk reaction." It was in the early stages of negotiating an alliance with Gazprom, Russia's leading natural gas producer. Eni, the Italian oil and gas group, said it too was maintaining contacts over a possible alliance with Gazprom.

There were forecasts, however, that companies contemplating new investments would delay decisions. James McNeish, director of the East European Trade Council, said: "My impression is that those who were about to invest in Russia are likely to hold off for a while. Russia is still going to be an important market for investment and goods. But investors will examine things even more closely than before."

Some companies were nevertheless defiantly sticking to new investment projects which demonstrated their long-term confidence in what all agree will continue to be a difficult market.

**Despite the latest events, some groups were nevertheless sticking defiantly to new investment plans**

Ikea, the Swedish furniture retailer, said it hoped to announce plans to build a second Moscow outlet after beginning work last month on its first SKr1bn ($122m) development.

Lennart Dahlgren, country manager, said the weakening rouble would force Ikea to step up its search for local suppliers to reduce dependence on imported products. "We believe the current economic weakness will not affect demand in Russia for our goods. In a couple of weeks or months the rouble will stabilise at a lower level."

Spain's Campofrio, a meat-processor which has been making most of its profit from selling ham and sausages to Muscovites, said it aimed to go ahead with plans for a third factory and added the troubles might open up new opportunities in Russia, where it claims a 20 per cent market share.

Vittorio Merloni, chairman of Merloni, the Italian domestic appliances company, said: "We will continue to invest in this market because we believe in the potential of the country where we intend to maintain our leadership in the domestic appliance sector."

However, Hachette Filipacchi Médias of France is postponing the Russian launch of Paris-Match magazine, originally scheduled for September, because of problems with logistics and the banking system.

Continental, the German tyre company, said that it had not abandoned plans to set up a tyre operation though it was still looking for a local partner.

General Motors of the US, which is discussing a joint venture with Lada, the Russian car maker, plans to persuade western car parts makers to form partnerships with Russian counterparts. David Herman, chief executive of GM Russia, said it took a long-term view and was considering building at least 100,000 units a year of a car to be developed jointly with Lada.

GM builds Chevrolet Blazer four-wheel-drive models in a joint venture in Tatarstan and wants to raise output to 50,000 vehicles a year by adding a version of Opel's medium-sized Vectra car.

Volvo of Sweden, which has a bus manufacturing joint venture in Siberia, said it was discussing further assembly ventures. "We see no reason to change these plans and we also hope to develop our car and truck dealer network around the country."

Companies are however having to take special measures to cope with the crisis. BAT Industries, which has invested $150m in Russian cigarette factories, said it was reviewing its pricing policy every day instead of every month, and was taking special care in managing cash. But demand for cigarettes would remain and BAT saw Russia as an important market.

Barter arrangements are one way of getting round shortage of cash. BOC's Mr Werner said: "Typical is a deal where we provide a company with oxygen. It supplies the power company with steel. And the power company supplies us with electricity."

Some companies saw benefits. AssiDomän, the Swedish pulp and paper group with a new $35m corrugated board plant near St Petersburg, said: "With the weaker rouble, imports to Russia will clearly be more expensive and that will improve the situation for producers already in the country."

*Reporting by Alexander Nicoll, Tim Burt, Jenny Luesby, David White, Andrew Fisher, David Owen, John Griffiths and Paul Betts*

**COUNTING THE COST** OVERSEAS GROUPS LOOK AT THE EFFECTS OF RUSSIAN CRISIS ON THE BOTTOM LINE

# Foreign companies start to make provisions in wake of turmoil

By Our Financial and Foreign Staff

Skandinaviska Enskilda Banken, one of Sweden's largest commercial lenders, yesterday said that it had increased its overseas loan loss reserves by 60 per cent because of the Russian financial crisis.

SE-Banken's announcement was one of several by European banks which responded yesterday to a greater or lesser degree of transparency.

ING Group, the Dutch bank and insurance company, said that it might use Fl 170m ($85m) of previously announced provisions.

ING said that the provisions amounted to one-tenth of its Russian exposure, which was mainly in short-term trade financing.

Safra Republic Holdings, the international private banking group controlled by Edmond Safra, took a $65.9m charge after writing down its holdings of short-term Russian government debt by 85 per cent.

Elsewhere, Regent Pacific, a Hong Kong-based fund manager with a focus on eastern European emerging markets, suspended dealings in 12 Luxembourg-listed funds with a combined market value of more than $100m.

The funds are understood to have have significant exposure to Russian short-term treasury debt.

Jacob Wallenberg, the chairman of SE-Banken, said in Stockholm that the bank's total exposure to Russia was almost SKr2bn ($240m).

"We have increased the country risk reserve by SKr300m to SKr800m, mainly because of Russia," Mr Wallenberg said.

Lending is understood to be split evenly between state and private sector borrowers.

The bank, the financial flagship of the Wallenberg business empire, is more exposed to Russia than other Swedish lenders.

Svenska Handelsbanken earlier this week estimated its Russian exposure at just SKr200m compared with SKr2.3bn for countries in south-east Asia.

Safra Republic said that it would barely break even in the third quarter after the charge.

Mr Safra is regarded as one of the world's most successful private bankers and his bank's decision quickly to recognise and charge off impaired credits is in line with his conservative banking philosophy.

Safra's position in GKOs – short-term treasury bills – represents less than one half of 1 per cent of its $30.8bn in assets.

Although Safra is best known as a Swiss private bank, its investment in Russia reflects its interest in serving the growing number of high net worth individuals in Moscow and taking advantage of the higher interest yields.

Safra's openness contrasts with a muddier statement on Wednesday by Credit Suisse First Boston, which left analysts guessing at losses estimated at $350 to $500m.

It also contrasts with RZB-Austria, the central bank of Austria's mutually-owned raiffeisen banks, which operates the biggest commercial banking network in eastern Europe.

RZB announced a 26 per cent increase in first-half operating profit to Sch1.9bn ($150m). However, Walter Rothensteiner, the company's chief executive, declined to quantify the impact of the crisis.

RZB is understood to have Sch3.9bn exposure to Russia.

*Reporting by Tim Burt, Jean Eaglesham, Jeremy Gray, William Hall and Clay Harris*

**COMMODITIES** OIL EXPORTS HIGH BUT PRICES HAVE FALLEN 30%

# Oil and metals not able to help in short term

By Gary Mead

Neither oil nor metals – exports of which together account for almost 70 per cent of Russia's total foreign revenue earnings – will be able to pull Russia out of the mire in the short term.

Russian oil exports have recently been at their highest levels ever, at some 2.15m barrels a day; last year Russia exported 2.54m b/d, some 2.1m barrels going to countries outside the former Soviet Union.

But these barrels are being sold into a market where the (dollar-denominated) global oil price has dropped by more than 30 per cent since the start of the year.

Moreover, "around two-thirds of Russia's 2.15m b/d of crude [oil] exports are pledged as securities for foreign credits", according to Petroleum Argus, the industry newsletter. Russia's oil companies are therefore benefiting from only 700,000 b/d of foreign sales.

Russia's oil industry is more closely interwoven with its banking sector than any other. As the banks totter, would-be foreign investors are already steering clear of closer involvement with Russian oil companies.

Another handicap is that the Russian government has attempted to squeeze ever more taxes out of the oil industry to fill its empty coffers; the industry in turn has tried to boost exports to the maximum, thus inadvertently helping keep international oil prices low.

And the banking crisis has almost paralysed interbank money transfers, with internal debts mounting. Oil companies are unable to meet VAT and excise arrears and are finding it difficult to maintain foreign sales.

The outlook is equally worrying for Russia's base and precious metals sector. The price of gold hit an 18½-year low yesterday, partly on fears that Russia has pledged a significant amount of gold reserves, about 520 tonnes, as collateral against credits from Swiss banks.

Norilsk, the world's biggest producer of nickel, is already working almost flat-out and has little potential to divert more metal on to the world market and take advantage of the devaluation. The country is also a big producer and exporter of aluminium, but here too there is little spare capacity to divert to exports.

**51% STAKE** PART OF IMF REFORM ACCORD

# Bulgarians seek rapid telecom sale

By Kevin Done
East Europe Correspondent

Bulgaria is aiming to complete the landmark privatisation of its telecommunications utility by the end of the year as part of reforms required by the International Monetary Fund and the World Bank.

It is offering a 51 per cent stake in the state-owned Bulgarian Telecommunications Company (BTC) to a foreign strategic investor. The deal could value BTC at between $1bn and $1.5bn and is the country's biggest privatisation move. The government is being advised by Deutsche Bank.

Bulgaria is joining a queue of countries from central Europe – including Romania, Poland, Macedonia and Croatia – that are seeking to attract foreign investors to develop their telecommunications networks

In the most recent deal two months ago a consortium comprising Telia and Sonera, the state-owned Swedish and Finnish telecoms groups, bought a 60 per cent stake in Lietuvos Telekomas, the Lithuanian telecoms utility, for $510m, in one of the biggest foreign direct investments made in the Baltic states.

The Bulgarian government has set a deadline of November 30 to receive final offers. Preliminary information on BTC has been made available to international telecoms operators, and contract negotiations are expected to be held during October and early November.

The privatisation of BTC is competing directly with the planned sell-off of a 35 per cent stake in Rom Telecom, the telecoms utility in neighbouring Romania.

The Rom Telecom sell-off has been delayed by the political turbulence of recent months, but the government has now set a deadline of the end of October to receive final offers.

Preliminary bids for the Rom Telecom stake were submitted in May by a consortium comprising Telecom Italia and KPN Telecom of the Netherlands, as well as by OTE, the Greek telecoms operator, which is planning to form a consortium with SBC Communications, the biggest US local telephone operator.

OTE, which has been partly privatised, is seeking to transform itself into the leading fixed-line operator in the Balkans. It has already indicated that it intends to bid for a strategic stake in BTC, and it has also expressed interest in buying a stake in Makedonski Telekomunikacii (MakTel), the Macedonian operator.

In its first foray into the Balkans last year in partnership with Telecom Italia it paid DM640m ($355m) for a 20 per cent stake in Telekom Serbija. Telecom Italia, which is a rival to OTE in Romania, bought a 29 per cent stake.

The Bulgarian government is offering potential investors a monopoly on local, long distance and international fixed line telephone operations until the end of 2002.

The successful investor can also participate in a second GSM (Global System of Mobile communications) mobile telephone licence, which the Bulgarian government is offering as part of the privatisation of BTC.

BTC, which has a workforce of 26,000 and 2.6m lines, is one of the least developed telecoms utilities in central Europe. Although it has a quite extensive system with around 32 lines per 100 inhabitants, much of it is still based on outdated analogue equipment with only 13 per cent of digitalised switching in the local network.

# Trans-Africa rail link planned

By Victor Mallet
in Johannesburg

Undaunted by the war in Democratic Republic of Congo, a group of South African investors yesterday launched a project to link the hitherto separate rail systems of northern and southern Africa to accommodate the rapid growth in freight traffic between the two regions.

The first stage of the plan by a new company called Trans-Africa Railway Corporation Tanzania is to build a $5m transhipment facility for containers at Kidatu, south-west of the Tanzanian capital, Dar es-Salaam.

This facility, which is expected to start operating in October, provides a link between the 1,067-millimetre, British imperial gauge railways of the south and the 1,000-millimetre German gauge lines of the north.

"This is the first time ever that Cecil Rhodes's vision of a Cairo to Cape Town link is beginning to become reality," said Philip Chen, managing director of the South Africa Infrastructure Fund, which is managed by Standard Bank and owns 48 per cent of Trans Africa. The other shareholders are Comar, which is a subsidiary of the South African state rail network Spoornet; and Africa East Coast Corporation, a company owned by two South African entrepreneurs.

Trans-Africa hopes to carry an initial 80,000 tonnes of cargo a year between the South African industrial province of Gauteng and Kampala, the Ugandan capital.

Using concessions granted by the Tanzania Railway Corporation, it also plans to carry 250,000 tonnes of domestic cargo in Tanzania each year.

The project has been made possible by the end of South Africa's isolation from its hinterland, following the abolition of apartheid and the country's first democratic election in 1994. Philip Morrall, chairman of the fund's investment committee, described it as "an incredible measure of how much the political situation has changed in Africa".

South African companies send everything from mining equipment to consumer goods into their new markets in Africa, but the existing transport routes, by land, sea, land again, and lake, are slow and expensive. As well as improving access to Uganda, the investors hope to boost trade with Rwanda, Burundi, western Tanzania and, when peace returns, eastern Congo.

# US, EU in bid to avoid 'cyber war'

By Louise Kehoe
in San Francisco

US and European Union officials will intensify discussions next month in an effort to avoid a "cyber trade war".

At issue is the EU's directive on data protection – a measure that imposes strict regulation of the collection and use of personal data on the internet and all computer systems.

Already, some "good discussions" had been held, said Ira Magaziner, senior adviser to President Bill Clinton on internet issues, but it was an "inherently difficult" topic with complex policy and technological issues.

While Europe is moving to impose government regulations to protect consumers on the internet, the US administration is committed to minimal government intrusion and "self-regulation" by internet publishers, retailers and service providers.

The matter may come to a head in October, when the EU directive is due to go into effect. The most contentious provision of the directive would prohibit the transfer of personal information about European citizens to countries that lack "adequate" protection of privacy.

If the US, which has no law on internet privacy, does not pass this test, there could be a serious disruption of transatlantic electronic commerce. Moreover, US multinational corporations could find themselves prohibited from collecting personnel records from their European subsidiaries.

However, Mr Magaziner said the US would soon meet the requirements of the EU directive through "self-regulation" of the internet. Moreover, European governments were concerned about any potential disruption of business with the US, he said in a speech at a conference organised by the Progress & Freedom Foundation, a Washington think-tank that focuses on the social and economic implications of technology.


Ira Magaziner: sees issue as 'inherently difficult' Reuters/Popperfoto

"While European governments are undeniably concerned about providing safeguards for personal data in cyberspace, they also recognise that any EU-wide policy that is seriously at odds with US policy could mean damage to their economies," Mr Magaziner told high-technology executives and policy analysts attending the conference.

The White House official also praised US industry efforts to create programmes that provide a "seal of approval" to web sites that promise to adhere to privacy rules including notification of customers about information collected and how it is used. Such schemes, still in the planning, would help to reassure internet users worldwide, he said.

## NEWS DIGEST

**AIRLINE GROUP URGES ACTION**

### European flight delays hit nine-year peak in June

Flight delays at European airports hit a nine-year peak in June, the organisation representing the continent's flag carriers said yesterday. The Association of European Airlines (AEA), representing 27 European airlines, said the situation had worsened during the spring and early summer and urged politicians to take action to solve the problem.

In June, 29.1 per cent of all flights of AEA's member carriers were delayed on departure by more than 15 minutes. "That is the worst monthly figure for nine years, and the second worst on record," the AEA said in a statement. Karl-Heinz Neumeister, AEA secretary-general, blamed lack of official action to improve air traffic control.

In its 1998 year book, published last month, AEA said several initiatives in the late 1980s to improve air traffic control had produced short-term benefits but no lasting solution. The AEA advocates a single air traffic control system for Europe instead of the current "unco-ordinated patchwork" of national systems. **Reuter, Brussels**

**IMPERIAL CHEMICAL INDUSTRIES**

### South Korean tie-up announced

Imperial Chemical Industries of the UK is to invest $57.8m in a strategic tie-up with Dongsung Chemical of South Korea aimed at strengthening the position of both companies in the international footwear market.

ICI subsidiary National Starch is to acquire 70 per cent of the Korean company's footwear adhesives business, which has annual sales of about $85m. Footwear adhesives are the fastest growing segment within the £8bn global adhesives market, with demand expanding at twice the industry average. The Korean acquisition would immediately enhance ICI's earnings, it said.

The group also announced an alliance between its polyurethanes business and Dongsung's shoe system division. ICI polyurethanes specialises in outer soles for shoes. Dongsung, which supplies Nike, Reebok and Adidas, is a leading producer of inner shoe soles. Dongsung's shoe soles are sold mainly in Asia, although nearly all are exported to Europe and America. **Jenny Luesby, London**

**MANILA WATER**

### Rates move may spark appeal

Manila Water, one of the two consortia operating the Philippine capital's water system, is considering appealing against the government regulator's approval of a rate increase which is below that sought by the company.

The move would add to a host of controversies in the world's largest water privatisation. Following petitions for tariff increases from both Manila Water – which groups local conglomerate Ayala Corporation, United Utilities of the UK and Bechtel of the US – and Maynilad Water to compensate for the El Niño drought and the regional currency crisis, Metropolitan Waterworks and Sewerage System (MWSS) announced marginal rises this week.

Manila Water, which surprised observers last year with its winning bid to supply water at 2.32 pesos (5 US cents) per cubic metre, wanted an extraordinary price adjustment that would more than double its tariff to 5.64 pesos per cubic metre, said MWSS. **Justin Marozzi, Manila**



**HUMAN RIGHTS TRIBUNAL** COMPENSATION FOR FORMER AND CURRENT FEDERAL WORKERS COULD HIT C$5BN

# Ottawa to fight equal pay ruling

By Scott Morrison in Toronto

The Canadian government yesterday said it would appeal against a recent landmark pay equity ruling by the country's human rights tribunal that could cost Ottawa as much as C$5bn (US$3.3bn) in back wages and interest payments.

Ottawa had been expected to appeal against the tribunal decision, which last month ordered the federal government to compensate 200,000 former and current federal workers who claimed that employees in female-dominated jobs were paid unfairly relative to employees in jobs dominated by males.

The tribunal said that compensation for lower wages was retroactive to 1985 and was subject to interest.

Jean Chrétien, Canada's prime minister, has said Ottawa must consider the consequences the ruling could have for provincial governments and the private sector.

He said that while only 10 per cent of the federal government's expenses were budgeted for salaries, up to 60 per cent of provincial outlays were to pay employees.

The government said yesterday that the tribunal's methodology for revising pay schedules was not equitable and not consistent with the law. Federal officials have noted that an earlier pay equity decision, a Bell Canada case under appeal by the union, provided much less compensation to workers.

Marcel Masse, president of the federal treasury board, offered to resume negotiations with the union that launched the pay equity challenge on behalf of federal workers.

Mr Masse reiterated the federal government's offer to provide C$1.3bn in compensation to settle the long-standing case. Ottawa has already provided C$1.1bn in pay equity adjustments, while the Public Service Alliance of Canada (PSAC) had been seeking C$2.3bn in compensation.

Daryl Bean, PSAC's leader, argued that the government's financial concerns did not constitute sufficient legal basis for an appeal. He added that Ottawa's decision to challenge the tribunal's decision sent a clear message to every employer in the country that women were fair game for wage discrimination.

The tribunal's ruling, believed to be the largest pay equity decision to date in North America, could set a precedent for other pay equity disputes between workers and employers in federally regulated industries, such as telecommunications and aviation. A number of these companies, including Bell Canada and Canadian Airlines, face or are involved in pay equity challenges.

The ruling would benefit current and former federal employees in areas such as clerical, secretarial and data capturing services, library sciences, hospital services and educational support. Studies have shown that Canadian women earn 30-35 per cent less than the average male earns for doing a similar job.

The ruling is the result of a 14-year challenge by the Public Service Alliance.

The case centres on the 1978 Human Rights Act, which outlawed the practice of paying women less for doing an equivalent job performed by male counterparts.

# Reno opens probe into Gore fundraising

By Mark Suzman in Washington

The White House was yesterday battling to contain a potentially damaging new scandal after Janet Reno, attorney-general, opened a preliminary investigation into possible fundraising abuses by Al Gore, vice-president, during the 1996 election campaign.

Ms Reno's decision will add to the growing pressure on Democrats, who are already struggling to contain the negative political reaction to President Bill Clinton's admission last week that he had an "inappropriate relationship" with Monica Lewinsky, a former White House worker.

Republicans have long charged that the White House engaged in illegal fundraising activities during the last elections, but Ms Reno has so far refused to appoint an independent counsel to investigate the allegations on the grounds that she had no credible evidence laws were violated.

However, the Justice Department has now obtained a memorandum that suggests Mr Gore may have known a portion of the cash he helped raise would be illegally diverted from unregulated "soft money" spending campaigns – which are used to highlight party issues – to "hard money" spending on direct election campaigns.

Ms Reno has 90 days to investigate the allegations and decide whether the case merits the appointment of a special prosecutor. Last year a similar inquiry produced no evidence of wrongdoing by either Mr Gore or Mr Clinton.

Republicans had mixed reactions to the announcement, with some suggesting it could be a ploy to delay any final decision until after the November congressional elections.

Mr Gore, who spent yesterday discussing education issues and helping Democrats campaign in California, had no immediate comment on Ms Reno's decision. However, the vice-president's lawyer said he was confident Mr Gore would be found innocent of any wrongdoing.

Meanwhile, Mr Clinton sought to re-emphasise his policy credentials by breaking off from his holiday on the resort island of Martha's Vineyard to make a speech before a strongly partisan crowd in Worcester, Massachusetts, on new security measures for schools.

The move came as the president mulls whether to make a second statement on the Lewinsky affair to try to allay concern by many Democrats that his first speech was not apologetic enough.

# Edmonton mall owners face C$450m suit

By Scott Morrison

The owners of West Edmonton Mall, the world's largest shopping centre, are being sued for C$450m (US$300m) in damages by Alberta's state-owned bank, which alleges that the mall's proprietors secured a C$420m refinancing package four years ago by bribing a former bank employee.

Alberta Treasury Branches (ATB), the provincially owned bank, has requested that the mall be put into receivership, which would enable ATB temporarily to own the shopping centre in trust. The bank alleges the mall breached its contract as a result of improper business practices.

The mall, owned by the Ghermezian family of Edmonton, said yesterday it would deny the allegations in court and oppose the application for receivership. The centre's general manager said that it had never been in better financial condition.

A former top ATB official has been accused of accepting C$500,000 in bribes in exchange for granting the mall a C$65m, 30-year interest-free loan as well as a guarantee on a C$353m loan provided by Toronto-Dominion Bank. ATB alleges that funds were funnelled from a bank account in Israel to shell corporations controlled by the bank official. A total of 20 defendants were named in the ATB lawsuit.

The Royal Canadian Mounted Police has confirmed its commercial crime division is conducting an investigation relating to ATB activity.

The refinancing package released West Edmonton Mall from its financial obligations to a syndicate led by a Toronto company, which would have assumed control of the shopping centre under a previously signed deal. Affidavits filed by ATB allege the Ghermezian family attempted to bribe another bank official at ATB.

The lawsuit stems from ATB investigations over the past 18 months.

West Edmonton Mall – which houses 800 stores in 2.4m sq ft of retail space and which features an amusement park, an ice rink, a water park and a sea world – was the family's trophy property when it was completed in 1985. But the Ghermezians quickly ran into trouble meeting their obligations and were forced to rely on concessions from the city of Edmonton and ATB.

# Boeing Delta rocket blows up on take-off

By Christopher Parkes
in Los Angeles and
Christopher Adams in London

Misfortune returned to dog Boeing on Wednesday night when the latest version of its Delta rocket blew up shortly after its inaugural commercial launch, on a journey which cost an estimated $3m a second.

One day after British Airways, long a Boeing-only buyer, announced it was buying European Airbus airliners for the first time, and after Europe's Ariane 4 launcher made its 37th consecutive successful flight, the US group's Delta III blew up 1 minute and 20 seconds into its mission.

Understatements flew as the 12-storey rocket illuminated the horizon off Cape Canaveral, Florida. "We have lost the signal from Delta III," the official commentator announced to live and television audiences.

An insurance underwriter, assessing the cost to the industry at $250m, said it was a "significant" sum.

"This is a little alarming. There's been a run of satellite losses this year," one noted.

The effects of the failure on the Delta III programme, which includes orders for 17 satellite launches in the next three years, were unclear, although the accident appeared to be a setback for Boeing's efforts to compete more aggressively with Ariane and Lockheed Martin's Titan programme.

Company officials said that although the next launch was due within three months, the timing would depend on the results of the investigation of events which caused the 12-storey rocket to tilt in flight at about the time the first set of boosters was due to be dumped in the ocean.

The explosion, which destroyed a communications satellite destined to beam television signals to US cable operators, was not expected to disrupt the business of its operator, PanAmSat. The company said it would use existing capacity until a new satellite could be launched in about 18 months.

Other recent accidents include the destruction of a Titan IV two weeks ago, and the last Delta failure occurred in January 1997, when a Delta II and its payload of an Air Force satellite lasted 13 seconds.

Satellite insurance losses so far this year total $850m, outstripping premium income of about $600m. But premium rates, which have fallen from 17 per cent of the value insured to 12 per cent in the last three years, are unlikely to rise as a result. The market is over-supplied, with capacity of $1bn for each launch far greater than the average value of $250m-$300m.

Lloyd's and the rest of the London market are expected to absorb less than 30 per cent of the total liability, which was placed around the world. Space Machine Advisors, based in Connecticut, was the broker for PanAmSat. Aon, the larger Chicago-based insurance broking group, arranged coverage in London.

The insurance typically covers the launch costs, which includes the value of the rocket, as well as the value of the satellite.

# US growth still slowing despite upward revision

By Adrian Michaels

US economic growth was slightly faster in the second quarter than previous estimates had stated, but was still far slower than earlier in the year, the Commerce Department reported yesterday.

Figures for gross domestic product growth were revised upwards to 1.6 per cent in the April-June period, from 1.4 per cent, yet well down on the 5.5 per cent rate set in the first three months.

The slight upward adjustment was mostly due to stronger demand. After-tax corporate profits edged up 0.3 per cent in the quarter, the Commerce Department said, following two quarters of decline, but were down 1.5 per cent on a year ago, the first yearly decline since 1989.

After-tax profit margins narrowed to 9.3 per cent from 9.6 per cent in the first quarter.

This, said Deutsche Bank Securities in New York, reflected higher employment and the continuing inability to raise prices.

Economists said distortions in the figures produced by the long strike at General Motors cut about half a percentage point from second-quarter GDP, and would be expected to do the same in the third quarter.

After that, said Merrill Lynch, growth would be stuck at about 2 per cent for the rest of the year. "The outlook for next year is ever murkier," it said. "Even in the worst of circumstances we don't see a US recession developing next year. But growth may end up weaker than most... currently expect."

The Commerce Department said the biggest contributors to the increase in GDP in the quarter were personal consumption expenditures, producers' durable equipment, government spending and residential structures.

These were offset by declines in inventory investment and a widening trade balance, which did not increase by as much as first stated.

SHRINKING GDP 6.8% FALL REPORTED

# Malaysians admit to recession

By Sheila McNulty in Kuala Lumpur

Malaysia fell sharply into recession in the second quarter of the year, when the economy shrank by 6.8 per cent compared with the same quarter a year ago – as the east Asian financial crisis hit far harder than the government had predicted.

The admission of recession by the government yesterday confirmed analysts' fears. "This highlights the need for urgent, recovery-based policies," said Neil Saker, head of economic research at SG Securities. "Things are very much at a turning point."

The country is in its first downturn for 13 years, after growth of 7.8 per cent last year and rapid expansion over the previous decade.

Bank Negara, the central bank, sought to offset deflationary pressures by immediately making available more money to borrowers and at a lower rate. It reduced the intervention rate, on which interest rates are based, to 9.5 per cent from 10 per cent, and cut the Statutory Reserves Ratio (money financial institutions must place, at no interest, with the central bank) to 6 per cent from 8 per cent.

Song Seng Wun, regional economist at GK Goh Research, said the magnitude of the slowdown, from a revised 2.8 per cent contraction in the first quarter, would enable Mahathir Mohamad, the prime minister, to argue that the tight monetary policies instituted by his deputy, Anwar Ibrahim, were not working.

Dr Mahathir has sidelined Mr Anwar, who is also finance minister, and put his confidant, Daim Zainuddin, in charge of economic recovery. Mr Daim reversed Mr Anwar's policies of high interest rates and fiscal conservatism. But economists stressed it would take more than that to revive the economy. Banks are overwhelmed by non-performing loans, which economists predict will account for 25-30 per cent of all loans at the peak of the crisis, and are reluctant to lend.

"Are banks going to become social-service organisations and give out loans, or be more prudent?" Mr Song said. "I think the latter will be the case."

Even if they do lend, economists worry the funds could flow offshore, where rates for ringgit deposits are higher, weakening the currency. They suspect capital controls are likely.

"In light of the weaker than expected out-turn in the first two quarters, the latest estimates of a decline of 1-2 per cent in overall GDP growth for 1998 as a whole would need to be reviewed," said Bank Negara. Economists rapidly revised their projected contraction from 4-5 per cent to 7-8 per cent.

Malaysia is trying to revive the economy without easing restrictions on foreign direct investment or seeking International Monetary Fund aid. It is establishing an institution to buy the non-performing loans and assets of banks, and creating a vehicle to recapitalise them. But the funding remains in limbo after the authorities withdrew plans to issue bonds.

Mr Daim revealed how difficult instituting a recovery would be. "The private sector has lost total confidence, and many [companies] don't want to tell us the truth about their situation," he said. "I think most of them are in trouble. They expect the government to do everything for them."

See Editorial Comment

POLITICAL DEADLOCK MIYAZAWA WARNS OF FAILURE WITHOUT PUBLIC MONEY INJECTION

# LTCB rescue 'needs cash'

By Michiyo Nakamoto and Gillian Tett in Tokyo

Japan's finance minister, Kiichi Miyazawa, warned yesterday that the troubled Long Term Credit Bank of Japan would fail if the government did not inject public money into the bank.

"When LTCB requests public money, and if we don't do it... I think LTCB will fail," he said. He added that the impact of a failure of LTCB could run into "trillions" of yen, including the impact on non-banks.

Mr Miyazawa was speaking at a special financial committee meeting in the Diet where the opposition fiercely attacked government plans to inject more than Y500bn ($3.46bn) of public money into LTCB. His comments are likely to fuel further investor unease about Japan's banking sector, since the fate of the LTCB is seen as a test of the government's ability to stave off serious financial unrest.

The ruling Liberal Democratic party and the opposition yesterday remained at loggerheads over the plans for LTCB. The opposition is determined to resist LDP plans to rescue LTCB, which they suspect is already insolvent.

The clash has delayed the parliamentary debate on bills designed to revive Japan's banking sector. This has deepened market concerns that political deadlock will prevent the government from acting rapidly to deal with financial sector woes.

The Nikkei index yesterday closed at its lowest level in six years, at 14,413.79, or down 3.04 per cent. This left it near the "post-bubble" low of 14,309.41 recorded in 1992 and analysts warned it could soon breach this symbolic level. Pelham Smithers, ING Barings analyst said: "If we continue to see a stalemate in the Diet it could go lower, below the 14,300 level."

The drop was partly triggered by the broader fall in world stock markets. However, it was also triggered by the financial unease. All 19 leading banks tumbled during the day, an unusual occurrence in Tokyo. The sector closed 3 per cent down on the day and 49 per cent down on the year.

Meanwhile, Sumitomo Trust indicated any decision on its planned merger with LTCB would be delayed until after next month, because of the longer time taken by the Financial Supervisory Agency, Japan's banking regulator, to audit LTCB.

# Party alliance confronts LDP

By Michiyo Nakamoto and Gillian Tett

Just last week, Japan's opposition appeared divided, disorganised and incapable of providing a credible alternative to the ruling Liberal Democratic party.

Such was the disarray that the LDP was given a fair chance of passing its financial reform bills through the Diet in spite of the growing public uproar over the use of taxpayers' money to rescue ailing banks.

This week's agreement by the main opposition parties to form a united front and submit their own package of financial bills has changed all that. Their alliance has raised the stakes for the government in its bid to resuscitate the troubled economy. Unless it can speedily implement measures to tackle Japan's massive problem loans, the yen could weaken further, bringing the stock market down with it.

The opposition alliance means the LDP, which does not have a majority in the upper house of the Diet, is less likely to win the co-operation it needs to pass its bills.

What is more, the opposition's rival plan, which has won praise from economists and bankers, will probably win greater support from a cynical public.

The main differences between LDP and opposition proposals lie in their treatment of troubled banks and disclosure rules. The LDP would have state administrators take over the assets and operations of failed banks and maintain credit lines to healthy borrowers. It would also try to find a private buyer within two to five years and, if that is not possible, set up a bridge bank under a state holding company.

Large banks would not be allowed to fail and would receive public funds to recapitalise in exchange for wide-ranging restructuring. The government has earmarked Y13,000bn ($90bn) for capital injections into the banks to encourage them to implement badly needed restructuring.

The Long Term Credit Bank, for example, will receive more than Y500bn of public funds. But failure to provide a convincing explanation for the use of public money has prompted concerns that tax money is being put into a bank that is in fact insolvent.


The finance minister, Kiichi Miyazawa (left), and the prime minister, Keizo Obuchi, at a Diet financial committee yesterday Reuters

The opposition insists that public funds will not be used to rescue failing banks. Its proposal would, in principle, liquidate failed banks and if this risked destabilising the financial system, the failed bank would be nationalised. Liquidated banks would be sold off within a year while nationalised ones would be wound up by 2001.

While the LDP would leave disclosure up to the individual bank, the opposition would require disclosure of all loans and loan loss reserves.

The opposition's more stringent approach "would be a quicker way to restore confidence in the financial system," since it would send a clearer signal that Japan was serious about banking sector reform, believes Robert Feldman, chief economist at Morgan Stanley in Tokyo.

Critics of the opposition's proposals point out that selling a nationalised bank back into the market could prove difficult. There is also concern about who would administer any nationalised banks.

However, the biggest concern is that the opposition might delay the entire process of banking reform. "If the political debate holds everything up for a long time that will be very bad," says a senior financial official. Bureaucrats say a delay would create the impression that Japan was again stalling on banking reform – and thus trigger another market setback.

# A$ drops to new low amid political fray

By Gwen Robinson in Sydney

The Australian dollar fell to a record low of 56 US cents yesterday, fuelling domestic uncertainty over the economy as rivalry intensified between the main political parties over tax reform proposals.

With national debate centring on tax-cut promises, critics said that economic issues had become hostage to electioneering, before a likely announcement this weekend of an early election in October. John Howard, the prime minister, this week confirmed the likelihood of an early election and members of his Liberal-National coalition have been told the date would be in early or mid-October.

The opposition Labor party yesterday promised tax cuts worth A$6bn (US$3.4bn) for low and middle-income families as the centrepiece of its campaign. The package was a response to Mr Howard's announcement earlier this month of sweeping tax reforms, featuring a 10 per cent goods and services tax (GST) and A$13bn worth of income tax cuts.

The package has pushed Mr Howard's conservative coalition ahead in public opinion polls to draw level with Labor for the first time this year. But economists have warned that the government is in no position to draw on projected budget surpluses to finance tax cuts, particularly in the wake of the Australian dollar's plunge and signs of further fallout from Asian economic turmoil.

Kim Beazley, Labor leader, said his plan, which offers an average weekly A$30 in tax cuts to low and middle-income families, would rely on government annual revenue sources rather than on budget surpluses, and would not include a consumption tax. "This tax package does not have at its heart the unfairness of a GST," Mr Beazley said.

But business and industry groups criticised the package for its failure to address inequities in the wholesale tax system and said the government's proposed reform programme was "the preferred package".

In efforts to woo the so-called "battler", or low-income voter, Labor's package singled out specific items, promising exemptions from the 12 per cent wholesale tax on vegetable and fruit juices, which it said were "staple household items", while imposing maximum wholesale tax of more than 30 per cent on luxury items such as "caviar and private-use business jets".

For Mr Howard, public responses over the next two days to the competing tax promises will be crucial in the final decision to call an election.

The coalition is also concerned about the rapid rise of One Nation, the anti-immigration and protectionist party led by independent MP Pauline Hanson. However, recent coalition gains in the polls have been at the expense of One Nation.

Further complications could arise from the weakening dollar and growing pressure on the Reserve Bank of Australia, the central bank, to raise interest rates to counter inflation. "A falling dollar is a negative for the government in power – it contributes to an impression that the economy is in trouble," said John Edwards, chief economist at HSBC Markets in Sydney.

An election campaign, however, would paralyse monetary policy, said another economist. "What you have is policy on hold... both sides talking about tax cuts and spending more money, and foreign markets finding that a little too much to bear – and further pressure on the Australian dollar."



# Rebels keep up pressure on Kinshasa

By Victor Mallet in Johannesburg

Rebels seeking to take Kinshasa, capital of Democratic Republic of Congo, skirmished with government troops on the outskirts of the city for the second day running yesterday, while South African efforts to negotiate a ceasefire between the various countries and ethnic groups involved in the conflict came to nothing.

Angolan, Zimbabwean and Namibian forces have been sent in by their governments to support the beleaguered regime of President Laurent Kabila, while Rwanda and Uganda are suspected of supporting the Tutsi-led rebel movement.

Zimbabwe's state-controlled media reported yesterday that two Zimbabwean soldiers had been killed, three were missing and 15 injured, prompting further criticism of President Robert Mugabe from his domestic opponents. According to the Herald newspaper, however, he is sending extra troops to support the 600 Zimbabweans already said to be in Congo. "Zimbabwe is sending reinforcements after finding that regular troops from at least two foreign countries [a reference to Uganda and Rwanda] were spearheading the attacks on Kinshasa," the Herald said.

Just over a year ago, Mr Kabila became the darling of African and western democrats when he overthrew Mobutu Sese Seko, the corrupt leader of the country then called Zaire. But he failed to unite Congo, root out corruption, or move towards democracy, and he made enemies of his former allies in the region.

President Nelson Mandela of South Africa has sought to salvage something from the turmoil in Congo by calling for a ceasefire and attempting to broker a negotiated settlement. But he has been rebuffed repeatedly by President Mugabe, who called such efforts the work of "hypocrites".

Yesterday Mr Mandela's emissaries – South African defence minister Joe Modise, and foreign ministers from South Africa, Tanzania, Mozambique and Zambia – failed to persuade the Organisation of African Unity in Addis Ababa to declare its support for an immediate cessation of hostilities. Nor could the ministers visit Kinshasa as intended because of the fighting and they returned to their respective homes.

Mr Mandela made a measured response yesterday to Mr Mugabe's accusations of hypocrisy. Parks Mankahlana, his spokesman, said Mr Mandela had "enormous respect" for Mr Mugabe and did not believe he had intended to insult fellow heads of state.

In Kinshasa, now subject to a dusk to dawn curfew, Reuters news agency quoted Mr Kabila's political chief of staff as saying that the president had left the capital. "He cannot be everywhere at once," Abdoulaye Yerodia said. "The president is directing the fighting in various places." Congolese officials took journalists to Kinshasa's airport yesterday to prove it was still in government hands, but AP reported that heavy fighting could be heard between the airport and the capital.

"Our forces are now fighting inside the city of Kinshasa," rebel leader Ernest Wamba dia Wamba was quoted as saying from the eastern town of Goma. "We are determined to win and control the city."

Meanwhile, Roman Catholic missionary organisations said the death toll in a massacre near Uvira at the weekend had risen to 207. Tutsi attackers, apparently seeking government supporters, overran a mission crowded with refugees and also attacked villages.

# US policy towards Iraq questioned

By Stephen Fidler in Washington

The resignation this week of Scott Ritter, the chief inspector of the United Nations Special Commission charged with uncovering Iraq's secret weapons programme, has raised new questions about US policy towards Iraqi President Saddam Hussein.

Mr Ritter cited as his reason for resigning that the US and UN were backing down in their confrontation with Mr Saddam, by lessening practical support – including intelligence information – for the inspection team seeking to uncover Iraq's arsenal of nuclear, biological and chemical weapons.

The US strongly denies the claims that its policy towards Iraq is weakening. "The policy hasn't changed: the policy is to do what's necessary to to get compliance with United Nations resolutions. But there is a difference between policy and strategy [on the one hand] and tactics," a State Department spokesman said.

US officials have also said that Mr Ritter's statements looked at the situation from too narrow a framework that has missed the weakening support for the Unscom inspections panel among Security Council nations. On the contrary, they say, US support for Unscom remains second to none.

However, observers are likely to draw a strong contrast between what happened at the start of this year when Iraq stopped the inspection team from carrying out its work and what happened this month when Mr Saddam decided to suspend co-operation with Unscom and inspectors for the International Atomic Energy Agency.

The Iraqi action earlier in the year led to a strong build-up in US forces in the Gulf, with British support, and significant threats of force towards Iraq. This led to a memorandum of understanding agreed on February 23 between Iraq and the UN, negotiated by Kofi Annan, UN secretary-general.

By contrast, this month's Iraqi move – an apparent violation of the February 23 agreement – has been received with a much lower level of rhetoric from the US. The State Department spokesman said all options remained on the table, including the use of force, adding that the US had more military force in the Gulf now than it had in February.

The change in tack appears designed to accomplish a number of things. In the first place, with support for the sanctions regime against Iraq weakening within the Security Council, the US appears to have decided to stave off a complete unravelling of its policy towards Iraq.

That has meant depriving the Iraqi president of pretexts for not complying with its commitments to the UN and with Security Council resolutions. Those pretexts have included Iraqi claims that Mr Ritter is an agent of the CIA. This, from the US point of view, would make it clear that Iraq was clearly responsible for non-compliance rather than the supposedly aggressive character of some of its inspectors.

Second, by keeping the military threat rhetoric at a low level, it deprives Mr Saddam of the ability to choose the timing of his confrontations with the US. In an opinion piece written for the New York Times last week, Madeleine Albright, the US secretary of state, said: "We control the timetable and will decide how and when to respond to Iraq's actions, based on the threats they pose to Iraq's neighbours, to regional security and to America's vital interests."

Third, the approach reduces pressure to unwind the sanctions regime from other members of the Security Council, since Iraq cannot evade its responsibility for not co-operating with inspections team.

Nonetheless, when Congress comes back from recess early next month and begins hearings on the issue, the administration can expect some tough questioning. For a sanctions regime alone – without inspections – would clearly be a workable policy from a US point of view only if Mr Saddam had been deprived of his ability to produce weapons of mass destruction, as some in the UN believe he has.

But sanctions alone are unlikely to be seen as adequate if the Iraqi leader has retained the capability to produce such weapons, as Mr Ritter believes. The question then becomes what the US can do to make Mr Saddam back down and allow the inspections teams to do their work.

See Editorial Comment


Scott Ritter: claimed the US and UN were backing down AP

# Kenya bomb suspects brought to US

By Robert Peston in London and Our International Staff

Two suspects in the bombing of the US embassy in Kenya, including one who told the FBI the attackers intended to be martyrs, have been brought to the US for trial, US officials and diplomats said yesterday.

Amos Wako, Kenyan attorney-general, said Khalid Salim and Mohammed Saddiq Odeh were sent to the US after meetings between government and law enforcement officials.

Mr Salim was flown by the FBI to New York, according to US officials who spoke on condition of anonymity. The FBI yesterday described a confession in which he said he expected to die in the August 7 suicide attack on the US embassy in Nairobi, Kenya.

That bombing and an almost simultaneous one at the US embassy in Tanzania killed 258 people, including 12 Americans, and injured more than 5,000. The US last week staged cruise missile strikes against targets in Sudan and Afghanistan it said were linked to Osama bin Laden, the renegade Saudi-born millionaire whom the Clinton administration accuses of inspiring the embassy attacks.

The British Foreign Office yesterday ordered the withdrawal of all British staff from its embassy in Khartoum and urged all UK citizens to leave Sudan. The withdrawal was prompted by the British prime minister's support for a US strike on a pharmaceuticals factory in Khartoum which the US says had a dual military purpose in the manufacture of deadly VX gas.

The quick support by Tony Blair for the US action prompted the Sudanese government to request the withdrawal of the British ambassador and his deputy.

Robin Cook, the British foreign secretary, yesterday agreed to the demand and said that the remaining eight British staff working at the embassy would be moved to Nairobi and London.

Speaking outside his official residence in London, he added that he was "advising British citizens not to travel to Sudan and recommending that those already in Sudan should leave".

Mr Cook cited "the singling out of Britain for criticism by the government of Sudan" as the reason for encouraging the exodus. However, British citizens based in Sudan said he was overreacting.

One said there had been no attacks or discrimination against the British since last week, when there was a Sudanese rally outside the embassy to protest against UK support for the US action.

A number of aid workers said they would not leave, for fear of putting in jeopardy their anti-famine work.

Meanwhile, Mr Cook reiterated his confidence that the US had evidence of the bombed factory's military purpose to justify its attack. He was responding to the disclosure in the Financial Times that senior FCO officials are concerned that the plant had a wholly peaceful capability and that Mr Cook was uncomfortable after the prime minister enthusiastically supported the US.

A senior European diplomat based in Khartoum, who has personal experience of the tracking of chemical weapons technology, said he believed the US had made a mistake.

# Israelis braced for more attacks

By Avi Machlis in Jerusalem

Israel was bracing itself for a renewal of bomb attacks yesterday, after a bomb exploded in Tel Aviv, injuring 17 people and breaking 15 months of quiet since the last attack in the city.

Israeli police said the bombing seemed to be a terror attack. But several hours after the blast, no group had claimed responsibility. Sheikh Ahmed Yassin, spiritual leader of Hamas, the extremist Palestinian Islamist group, said: "We don't know who carried it out".

Since 1994, Hamas suicide bombers have killed scores of Israeli civilians in an attempt to destroy interim peace deals between Israel and the Palestine Liberation Organisation.

This week, Sheikh Yassin vowed to strike Israel in response to the US attacks in Afghanistan and Sudan.

But Palestinian officials warned Israel not to blame Palestinian groups until evidence linked them to the explosion.

After the bombing, Benjamin Netanyahu, Israeli prime minister, demanded a crackdown by the Palestinian Authority self-rule government on terror groups as a condition for progress in the peace process.

He has repeated this demand over many months, even though the last suicide bombing in Israel took place a year ago and many attacks were planned from parts of the West Bank still under Israeli military control.

● The Jerusalem municipality gave the final go-ahead yesterday for the construction of 132 housing units for Jews in an east Jerusalem neighbourhood, with construction expected to begin in the coming months, a city spokesman said. AP reports from Jerusalem.

Palestinian Authority officials labelled the approval a "provocation" and said that they would fight the project in traditionally Arab east Jerusalem "with all means".

**INWARD INVESTMENT** SILICON VALLEY TECHNOLOGY GROUP CHOOSES ENGLAND FOR EUROPEAN RESEARCH BASE

# US chip company to open centre

By Brian Groom in London

Lattice Semiconductor, a microchip design company based in Hillsboro, Oregon, is to open its first European research and design centre in south-west England.

The centre will bring to Europe semiconductor technology previously developed only in California's Silicon Valley.

Lattice is world leader in design and development of in-system programmable logic devices – microchips which incorporate programmable elements that make them suitable for a wide range of electronic applications from computers to mobile phones and aircraft avionics.

It will operate from temporary premises this autumn and move to permanent ones next year. The location has not yet been chosen, but will be in the Bristol-Swindon corridor that contains most of the region's high-technology companies.

Lattice's existing research and development is conducted in Silicon Valley, in Shanghai, and at its corporate headquarters in Oregon. The new centre will focus on designing deep sub-micron integrated circuits to expand its product family.

Steve Skaggs, senior vice-president and chief financial officer, said: "The Bristol-Swindon M4 [motorway] corridor has a well established base of highly qualified engineers suitable for our technically demanding design requirements." Other potential locations had included Hampshire in southern England, Scotland and Ireland.

Peter Connor, the West of England development agency's chief executive, said it "boosts our region's reputation as one of the intellectual centres of the world's semiconductor industry".

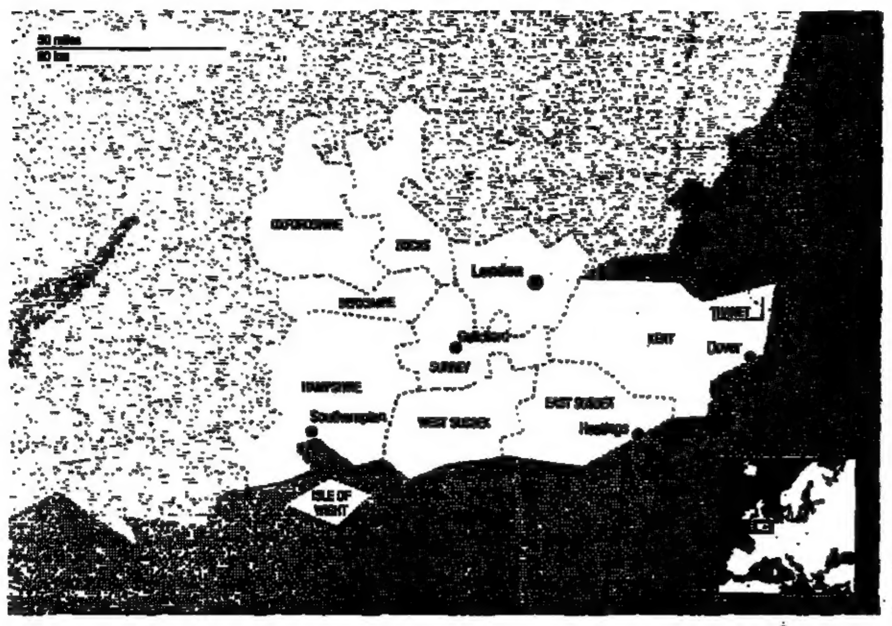
Semiconductor designers in south-west England include France's STMicroelectronics, Canada's Mitel Semiconductor, Oak Technology of the US, and UK-owned Swindon Silicon Systems and Westcode.

Some of the biggest electronics groups, such as Hewlett Packard, Intel, Motorola and Lucent Technologies, employ large numbers in the region, which rivals Cambridge and central Scotland as a technology centre. Peter Mandelson, chief industry minister, said the announcement "confirms the UK's position as the leading European centre for the development of new technologies that will drive the knowledge-based industries of the next century".

The announcement provides a fillip for the West of England development agency's attempt to market the region, which is home to 900 electronics-related companies, as one of the world's top high-technology areas.

**S-E ENGLAND** 'IF WE WERE AN INDEPENDENT COUNTRY WE WOULD BE THE WORLD'S 19TH-LARGEST ECONOMY'

# World-class status is region's goal




By Brian Groom in London

South-east England could achieve economic growth rates of nearly 10 per cent a year and become one of the world's 10 most successful regions within a decade, the chairman-designate of its regional development agency has predicted.

"The south-east is a £100bn ($165bn) economy of 8m people," said Allan Willett. If we were an independent country we would be the world's 19th-largest economy, and the 10th-largest in Europe."

The south-east must be Britain's "innovation region", he continued, in an interview with the Financial Times. It must attract clean, high-technology industries and "leap up the chain of high value-added business". It also had to improve its "second-class" rail network.

He said the south-east should look not just to successful European regions such as Hamburg, Paris and Munich, but to US regions such as west Connecticut, which bears the same relationship to New York that south-east England has to London.

Mr Willett, chairman of Willett International, a manufacturer and supplier of coding and labelling equipment, is one of eight chairmen chosen to head English development agencies, which begin operations next April. To concentrate on the part-time job, Mr Willett has handed over the role of chief executive of the family business to his son Robert.

Unlike parts of northern England and the Midlands, the south-east has little regional consciousness. Mr Willett is used to building organisations from scratch, having founded the Centre for Tomorrow's Company in 1996, following a Royal Society of Arts inquiry, as well as his own business.

The headquarters of the south-east economic development agency, which will have up to 100 staff, will be Guildford, to the south-west of London. That makes the town the region's administrative capital: it already houses the government office, and the recently formed investment agency is likely to move there.

The region encompasses nine counties outside London. "We have got to work closely with London, which is like sharing a tent with an elephant," Mr Willett said.

Although it is the wealthiest UK region outside London, south-east England slipped from 15th to 18th among European regions in 1995 in gross domestic product per head. Mr Willett wants to bring poorer parts of the region such as Thames Gateway, Thanet, Hastings and other coastal areas up to the south-east average.

He believes long-term growth rates approaching double digits can be achieved in spite of the current slowdown, which he sees as necessary. "I don't disagree with the Bank of England's monetary committee. Even though my company exports 90 per cent of its UK output – and you can imagine what that's doing to us – I'd rather have that than inflation," he said.

Unlike some chairmen further north, he believes the RDAs should run for a couple of years before pushing for extra powers. High on his agenda is the possibility of regional funds for venture capital or buy-outs, or a regional bond for development.Mr Willett welcomes the indirect chamber being created to advise the RDA. As to whether it should eventually become an elected assembly, he said: "If that is what the people of the south-east want in the next 10 years, then it will happen by evolution."

## London's subsidy to rest of UK may be $23bn a year

London's tax subsidy to the rest of the UK may have reached £14bn ($23bn) a year, or £2,000 per Londoner, according to a report by the National Institute of Economic and Social Research published today. **Brian Groom writes.** The research, for London Chamber of Commerce and Industry, suggests that 25,000 jobs could be created by reinvesting £2bn in the capital's transport infrastructure. Several potential candidates to be London's elected mayor have called for £2bn to be taken from the government's budget for Scotland and spent in the capital. Andrew Hawkins, the chamber's director of policy, said: "Despite the fact that the capital generates up to £14bn more than is spent by government here every year, we have the second highest unemployment rate in the country and the most congested transport system."

# Bill to establish financial regulator may be delayed

By George Parker and Robert Peston

A bill to give legal underpinning to the Financial Services Authority, the new "super-regulator" for the City of London, is one of a number that are likely to be postponed.

The government had promised a draft FSA bill before the summer recess, but it never materialised. Although the draft is complete, there is no firm date for its publication.

Tony Blair, the prime minister, is to put back some important bills to clear the way in the next session of parliament for a battle with peers over reform of the House of Lords, the unelected upper House of parliament.

It emerged yesterday that a long-awaited bill to introduce a Food Standards Agency is also likely to be delayed. Another central commitment by the governing Labour party, a Freedom of Information bill, is expected to be delayed for at least a year, along with important legislation on financial services supervision. Senior ministers warned that the next Queen's speech, setting out the government's legislative programme, is not likely to take place until early December, far later than normal.

It will set out a slimmed-down programme, at the centre of which would be a bill to abolish the voting rights of hereditary peers. Ministers fear that Conservative members of the House of Lords, and even some Liberal Democrats, could attempt to sabotage government bills in protest at Lords reform.

"Any significant pieces of legislation could be hijacked in the Lords and delayed for months," said one minister. "The legislative programme for the next session will take that into account and be unique."

The bill to set up the Food Standards Agency was hailed last year by Mr Blair as one of the government's top priorities. The delay will delight the food industry, which has been lobbying ministers to drop plans to charge a licence fee to food producers and outlets, to help raise about £60m ($99m) to fund the agency.

Officials are studying the possibility that the charge might be levied exclusively on food outlets, not producers, to ensure that British food producers were not put at a competitive disadvantage. The Ministry of Agriculture insisted that a "shadow agency" was already in place. Legislation would be introduced at the first opportunity.

# Thatcher 'ready to lead again'

By George Parker, Political Correspondent

Baroness Thatcher yesterday predicted that the opposition Conservative party would lose the next general election, adding that she was open to offers if people asked her to come back as leader. As Conservative leader, she was prime minister from 1979 until she quit in 1990. She won three general elections in succession.

In a characteristic display of self-confidence, Lady Thatcher claimed in a magazine interview yesterday that the heavy Conservative defeat in the 1997 election was a direct consequence of her ejection by her party in 1990.

"The people who brought about that incident [her phrase for the circumstances of her downfall] are responsible for the biggest defeat the Conservative party has ever had," she said. "They have let the Labour Party in, and big! You won't turn that round in one election."

Her comments hardly represented a ringing endorsement of William Hague, whom she backed in the party's leadership contest last year against Kenneth Clarke, who had been chancellor of the exchequer in the government of John Major, Lady Thatcher's successor as prime minister in 1990.

The 72-year-old baroness said she was always waiting in the wings as "a backstop", although she admitted that there were plenty of young people ready to take the Tory helm. Speaking to Saga magazine, she admitted to having slight hearing problems. She and her husband Denis wash the dishes together "because they do not produce enough to justify buying a dishwasher".

# Beleaguered foreign secretary finds haven in Europe

Robin Cook is likely to restore a damaged reputation through his skilful touch in EU policy development, says **Robert Peston**

Robin Cook, the foreign secretary, is widely seen to have had the least auspicious debut of any of the senior ministerial colleagues of Tony Blair, the prime minister.

For months, embarrassing details of the breakdown of the foreign secretary's marriage titillated readers of the tabloid press, while the weightier sheets complained of deficient management of the Foreign Office during the "arms-to-Africa" affair.

This is a shame because Mr Cook is an individual of remarkable analytical and oratorical talents, if a bit prone to vanity even by the standards of an image-obsessed cabinet.

But as he packs his bags and heads off on holiday, he should take heart. With economic growth expected to decelerate sharply, holders of the big domestic portfolios – especially the chancellor, his fiercest rival – are likely to see their popularity ratings fall, while he should be safe from squalls.

Mr Cook is also showing a deft touch in the challenging area of European Union policy development. The Foreign Office has this summer come up with imaginative and practical proposals on Europe. They will be delivered to the prime minister this week, following a series of Foreign Office brainstorming sessions.

These have involved an unusual number of non-government contributors, as part of an attempt by Mr Cook to break what he sees as an insular departmental culture. On Wednesday, for example, Helen Wallace of Sussex University led a discussion with the foreign secretary and a dozen academics and commentators.

So the UK should be in the vanguard of preparation for October's special summit of EU government heads in Austria. This will debate how the EU's legitimacy and popularity can be enhanced. And, for once, a British administration is working with the flow of changing sentiment across Europe.

This is important. Mr Cook is these days a cautious and pragmatic pro-European, although struggling to slough off his erstwhile reputation as a sceptic. He was particularly annoyed when one of his recent suggestions, that EU members should pursue future integration via agreement on common general standards rather than through detailed technical directives, was hailed as a Eurosceptic initiative.

In fact, its practical consequence could be to accelerate EU harmonisation. Member states should be less minded to resist adopting a common approach to social or employment policies, for example, if discretion in the detail of implementation were left to member states' parliaments.

But Mr Cook feels the overriding challenge is to restore popular support for the EU, and is wedded to the notion that the way to make people feel closer to it is to secure greater involvement of their national parliaments. His preference is for the creation of a powerful new "scrutiny committee" of national MPs, whose role would be to prevent the EU straying into legislative territory best left to individual states.

It would be the watchdog of a new "subsidiarity code", which would give practical form to EU leaders' determination to limit further integration only to those areas where collective action is probably superior to individual initiative.

But perhaps the most surprising – and welcome – aspect of these proposals is that they are not yet official government policy. Unlike so many of his ovine colleagues, Mr Cook is airing ideas that are still to receive Mr Blair's imprimatur.

# Appendix tests may give extra indications of CJD

By Clive Cookson, Science Editor

Many thousands of surgical samples from routine operations to remove the appendix and tonsils are to be tested in an effort to assess the extent to which BSE or "mad cow" disease infection has spread into the human population, the Department of Health said yesterday.

The announcement coincided with the publication in this week's medical journal Lancet of the first clinical evidence that the infectious protein responsible for BSE and its human equivalent, new-variant Creutzfeldt-Jakob disease (nvCJD), could be detected elsewhere in the body before it started destroying the brain.

Doctors at Derriford Hospital, Plymouth, worked with the National CJD Surveillance Unit in Edinburgh to identify the so-called prion protein in a preserved sample of appendix removed from a coastguard in an operation in 1995. He began to develop symptoms of nvCJD eight months later (numbness in his face and right hand) and died in June.

Sir Kenneth Calman, chief medical officer, said the discovery provided the first opportunity to assess the number of people who were harbouring infection through having eaten BSE-contaminated meat during the 1980s, before government controls took effect. Although 27 have died of nvCJD in the UK since 1995, researchers have no idea whether an epidemic of the human disease is on its way, because its incubation period is unknown.

The Department of Health and Medical Research Council are working out the best way to test thousands of samples of appendix and tonsils, removed in operations over the past few decades, which are preserved in hospital tissue banks.

The most difficult unresolved question is an ethical rather than a scientific one: should healthy people, whose samples show prion protein, be told they are at high risk of developing a horrible – and untreatable – brain disease? Sir Kenneth said the issues were similar to those that arose in the 1980s when it was possible to screen for the HIV virus that caused Aids but not to offer treatment for those who tested positive.

Although the Department of Health presented the Plymouth case in a positive light, Sir Kenneth said it "also raises issues about the possible transmission of the prion protein via medical instruments" from patients undergoing routine surgery.

However, the government's expert advisory committees said the risk of CJD transmission from this route was "minimal" and no new precautions need be taken.

## NEWS DIGEST

**NORTHERN IRELAND**

### Paramilitary prisoners may be freed within two weeks

The first 17 of 200 paramilitary prisoners to be freed from jail in Northern Ireland may be released early next month, the UK government's Sentence Review Commission indicated yesterday. Several paramilitary prisoners have been freed in the Republic of Ireland since the April peace agreement, but none in UK jurisdictions.

The early release scheme is open to prisoners from the Irish Republican Army and its main anti-republican rivals, the Ulster Defence Association and Ulster Volunteer Force. The Commission said it had received 446 applications, of which 38 had been returned "because they either do not conform to the criteria or had been completed incorrectly".

Eighty-three applications were at an advanced stage, of which 32 had come from Republican prisoners, 29 from anti-nationalist "loyalists" and 22 from people convicted of terrorist offences but who had dissociated themselves from paramilitary groupings.

Under the terms of the peace agreement, the scheme will be staggered over a two-year period. Prisoners affiliated to organisations that "have not established or are not maintaining a complete and unequivocal ceasefire" will not benefit from the arrangements.

● The party of Spanish schoolchildren caught in the Omagh bombing in Northern Ireland returned to Madrid yesterday. Four of the party aged between nine and 15 remain in critical condition in Belfast's Royal Victoria Hospital. A teacher and a 12-year-old boy who died in the attack by the Real IRA were the first citizens of a country other than the UK and Republic of Ireland to be killed in a terrorist attack in 30 years of Northern Ireland "Troubles".

**DIVIDEND TAX CREDIT**

### Pension funds weather change

A tiny minority of the UK's 100 largest companies have reported a substantial increase in pension costs following last year's removal of the dividend tax credit, according to research published yesterday. The results of the survey by Lane, Clark and Peacock, a firm of actuaries, are likely to provide succour to supporters of the government's abolition of the Advanced Corporation Tax credit.

The survey shows that the remaining 63 companies to have re-evaluated pension funds since last July's abolition have either changed their actuarial assumptions to make them more optimistic or left them unchanged because they were "prudent" enough to absorb the extra costs. The abolition of the tax credit cut the value of dividends held by previously tax-exempt pension funds by 20 per cent. In its last annual survey LCP argued that the abolition could increase pension costs for the FTSE 100 by between £1bn ($1.65bn) and £2bn a year. **Jane Martinson, London**

**SCOTTISH PARLIAMENT**

### Call for financial control

A management and finance department should be established by the planned Scottish parliament to ensure that its administration takes an efficient and innovative approach in public spending decisions, the independent Scottish Council Foundation says today.

The department "will be vital" to enable the parliament to perform its most important task: determining how to spend the region's £14bn ($23bn) budget.

The report came as Tony Blair, the prime minister, yesterday began a two-day visit to Scotland to bolster Labour's campaign in advance of the first elections to the parliament next year. Opinion polls suggest the Scottish National party has a commanding lead over Labour for control of the parliament. The prime minister told the Scottish Mirror newspaper: "Their goal is to wreck the Scottish parliament and use the chaos to wrench Scotland out of the UK, no matter what the damage to Scots' jobs and investment." **Andrew Parker, London**

**PRIVATE FINANCE INITIATIVE**

### More projects get go-ahead

Fifteen more local government private finance projects were given the go-ahead yesterday amid signs that the government's private finance initiative (PFI) is finally beginning to take off.

Nick Raynsford, the environment minister, announced that a range of schools, a library, a leisure centre, and a fire station would join the other 51 local authority projects so far given the go ahead in a programme with a total investment value of £500m ($825m).

He did so as the Treasury said that the rash of PFI deals signed over the summer has taken the total to more than £1.65bn this year – a significant increase over the same period last year. **Nicholas Timmins, London**

# Industry group warns of gloomy economic outlook

By Richard Adams in London

**Looking ahead to 1999**
Annual % change

| | GDP % | RPI(x) Q4 | Interest rates Q4 | Consumer spending | Company profits |
|---|---|---|---|---|---|
| CBI | 1.2 | 2.5 | 6.25 | 1.3 | 0.1 |
| Treasury (March Budget) | 1.75-2.25 | 2.5 | - | 1.75-2.25 | - |
| Oxford Economics | 1.7 | 2.6 | 6.5 | 2.4 | 3.3 |
| NIESR | 1.5 | 2.5 | 7.0 | 1.6 | - |
| Goldman Sachs | 0.5 | 2.8 | 6.5 | 1.9 | - |
| Morgan Stanley | 1.3 | 2.8 | 7.0 | 2.3 | 5.4 |
| Consensus Forecasts | 1.4 | 2.6 | 6.8 | 1.9 | 2.8 |

The Confederation of British Industry yesterday issued a sharp downgrade to its forecast for the UK economy next year, slashing 0.9 percentage points off growth because of falling consumer spending and investment. The CBI now expects gross domestic product to grow by just 1.2 per cent in 1999. In its previous forecast, published in May, it predicted growth of 2.1 per cent.

But the employers' organisation stopped short of forecasting a recession – two consecutive quarters of falling output – between now and the end of 1999. "Growth is pretty much flat, grinding to a halt in the next 18 months," said Kate Barker, the CBI's chief economic adviser. Ms Barker was careful to say the CBI's central case was not a "hard landing", even though it had moved away from its earlier predictions of a soft landing.

The CBI expects inflation to fall back to the government's target rate of 2.5 per cent by the end of next year – and sees the Bank of England, the UK central bank, cutting interest rates by as much as 1.25 per cent by the fourth quarter of 1999.

Hardest hit by the slowdown in 1999 is expected to be consumer expenditure, falling by two-thirds to 1.3 per cent annual growth. Retail sales volumes should crash from growth of 3.4 per cent this year, to just 0.4 per cent in 1999. Consumers are more likely to save their money, causing a rise in the savings ratio.

Company profits will also be hurt, as average earnings growth remains above 4 per cent. The CBI is predicting pre-tax trading profit growth of just 0.1 per cent in 1999. Profit growth was 3.1 per cent last year.

The CBI's forecast for the UK economy is the latest in a series of gloomy predictions.

The profits figure is more pessimistic than many similar forecasts. Merrill Lynch, the investment bank, is forecasting flat profits growth but higher inflation (2.9 per cent) and average earnings growth (5.1 per cent).

Schroders expects company profits to fall, by 3.4 per cent, but with similarly strong earnings and inflation increases.

Consumer expenditure will add just 0.9 percentage points to gross domestic product growth, compared to 2.9 last year and 2.4 this year, according to the CBI. The confederation's prediction of 1.3 per cent growth in consumer spending in 1999 is well below the majority view.

RECRUITMENT

RICHARD DONKIN

# Working on a new ethic

## Can capitalism be 're-engineered' to include the great mass of people?

Is begging work? I pondered this question in San Francisco which must have some of the world's most enterprising beggars.

One, patrolling a traffic junction; had milk crates strapped to his feet to raise his visibility and used a long pole with a net to reach across to car windows. Another had a small sign by his tin saying: "Let's be honest, it's for the Budweiser." But by far the most successful was the one dressed as a cow.

The man in the cow suit had a prime position next to the pier for the Alcatraz ferry. A sign round his neck said: "I moo for cash". Every time someone threw a quarter into his tin he would jump up and down, mooing while pulling his rubber udders. Watching his performances for some time I reckoned that he must have been making about $10 (£6) an hour, easily twice that of the assistants in the fast-food bars nearby.

This US-style begging had an entrepreneurial fizz that would have been admired, although not necessarily understood, by the roadside beggars of Bombay who pursue their art with a vocational zeal directed more towards evoking sympathy than providing street entertainment. Whether they would recognise it themselves, both the San Francisco and Bombay beggars are engaged in activities that require effort and invention.

So, is it time for a redefinition of the meaning of work? Jeff Gates, a counsel to the US Senate Committee on Finance in the 1980s and a pioneer of employee stock ownership plans (Esops) in the US, believes that the work ethic needs updating to make it relevant to an era when machines, or what he calls "ownable assets" perform much of the work.

In his new book*, Mr Gates points out that the word "work" is derived from the Greek word for "sacrifice" – a necessary evil, requiring an employee to give up his leisure in return for wages. This would suggest, he writes, that "the ideal of an employer is to have output without employees, while the ideal of the employee is to have income without work".

This, he accepts, is contradicted by those who stress the psychological imperative of work so that, as Max Weber, the German economist, put it, "one does not work to live, one lives to work". People's identities have long been defined by their work, writes Mr Gates, apparent in many surnames such as Baker, Butcher and Smith.

That we are what we do may be true but the content of the job for many in low paid work is hardly sufficient to make Weber's notion palatable. Studs Terkel, "the working man's philosopher", said that "work is about daily meaning as well as daily bread. For recognition as well as cash; for astonishment rather than torpor; for a sort of life rather than a Monday to Friday sort of dying".

Mr Gates' concern goes beyond the content of work to the capitalist system itself. However successful it has become it is not very good at actually creating capitalists. Everyone should have the means to become a capitalist in a capitalist society, he says, yet this is not the case.

The rich are getting richer while the poor are finding themselves ever further adrift. US Census Bureau statistics for 1996 showed that the top fifth of American households were receiving 48.2 per cent of the nation's income compared with a bottom fifth surviving on 3.6 per cent. Supply-side economic measures from the Reagan and Thatcher eras have created not so much a trickle-down but "trickle-up" effect, says Mr Gates.

Such measures have allowed the unbridled advance of the capitalist system but, he says, it has proved incapable of including the mass of people, whether in or out of work. The solution, he argues, is not to rely on a return to Keynesian economics but to "re-engineer capitalism" with policies designed to promote wider share ownership of companies.

Mr Gates' arguments have been influential in the establishment of tax incentives designed to encourage large family shareholders in the US, looking for a tax efficient way to shed their stock, to transfer their holdings into Esops. But the spread of such schemes has been too slow to create the critical mass necessary to change the existing system of corporate finance. To create such a change, Mr Gates accepts, would need a fundamental shift in policy. He says this could help drive further tax relief and incentives and the introduction of share ownership plans for other corporate "stakeholders" such as suppliers, distributors and customers.


His book is interesting on the question of ownership, employee motivation and input. Ownership, by itself, he notes, is not sufficient to elicit employee commitment. Employee owners soon became disillusioned unless managers also involved them in decision-making.

Such involvement would enhance the content of work, refocusing managers on necessary work rather than work in its traditional sense of sweat and toil. The work ethic, says Mr Gates, should be viewed today as an "exchange ethic" requiring productive input that does not necessarily assume the need for human labour. Could this really arise from true worker capitalism? Imagine if the financial benefits of labour-saving technology were more evenly distributed among the population. You could hang up your cow suit for good.

**The Ownership Solution, Toward a Shared Capitalism for the 21st Century, is published by Penguin Books*

*richard.donkin@ft.com*

WORKING BRIEFS

### Safety net for families cast adrift in posts overseas

ECA International, a specialist consultancy in international human resources has launched a web site with its US sister company, Windham International, aimed at helping the families of executives working overseas to get the most out of a posting.

"At present the primary reason candidates give for turning down an international assignment is their partner's career and the main cause of assignment failure is the inability of a partner to adjust to the new location," says Charlene Solomon, senior consultant at Windham International in New York.

In addition to careers advice, the site, called *ExpatSpouse.com*, will include a bulletin board on which members can post their CVs if they are seeking work overseas. Access to the site is gained through corporate membership.

### Never go back

You tell your company you are planning to leave and it responds with a hefty counter offer. Should you stay or should you go? Jeff Grout, managing director of Robert Half International, the recruitment consultant, says the best bet is to go.

"The counter offer can be as much as 10 to 15 per cent more than an employee's existing salary but to accept it can be career suicide," he says. "Counter offers simply buy time and six months down the line the employee who has been lured back will find he no longer has a job."

Mr Grout's research suggests employees should carefully consider their original motives for seeking to leave before deciding otherwise. "Don't accept the new offer unless it deals with all your reasons for wanting to leave and ensure the offer is confirmed in writing," he says.

### Online for jobs

Bewildered at the number of recruitment consultancies out there? The UK's Federation of Recruitment and Employment Services (Fres) alone has 4,700 members all of which are now listed on an internet "consultancy finder", *www.fres.co.uk*. The service allows job candidates or employers to find a consultancy by choosing a sector and selecting a job type.

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### Controller – Major Projects

**£45,000 + Car + Benefits** — **South East**

THE POSITION

- Co-ordinate complex change management processes to develop financial and commercial input to direction of business. Proactively contribute to customer account profitability.
- Provide project managers and global account directors with financial and commercial advice. Develop effective financial information in support of the bid/tender process.
- Real scope to influence business and work closely with senior management. Report to Head of Business Planning.

QUALIFICATIONS

- Highly intelligent graduate qualified accountant with extensive financial modelling and investment appraisal experience.
- International blue chip background. Comfortable with matrix management and global business structure. Proven record of commercial contribution to operational efficiency.
- Credibility, presence and good networking skills. Ability to influence at all levels business-wide. Creative and innovative thinker.

**Ref LG200281**

### International Financial Controller

**c.£52,000 + Car + Benefits** — **South East**

THE POSITION

- Full responsibility for consolidated international financial reporting, business planning and analysis. Report to Finance Director.
- Champion improvement in financial management in overseas subsidiaries. Provide commercial finance support to local management to formulate international best practice.
- Develop effective business information in support of rapidly developing business structure and sales strategy.

QUALIFICATIONS

- Highly intelligent graduate qualified accountant with upwards of six years' experience including international reporting and business planning within multinational environment.
- Commercially astute and technically excellent. Record of process improvement and proactive commercial involvement in rapidly changing business.
- Proven ability to liaise and influence at senior management level. Highly ambitious. Ability to progress within international blue chip environment.

**Ref LG200280**

Please send full cv, stating salary, quoting appropriate reference to NBS, 54 Jermyn Street, London SW1Y Fax 0171 491 0447 Email estellec@nb-selection.co.uk Tel 0171 493 6392

# IT Appointments

## INVESTMENT BANKING

**EXCEL VBA/MATHS**
**£35K - £50K + BONUS**
Leading Wall Street player seeks Developers for their convertible warrants desk. Providing rapid response and tactical development for the trading team, you will utilise your solid Excel and numerical skills. These roles are all based on the 'floor' and demand excellent communication skills coupled with a sharp mind and attitude. High flyers only.

**C++/SQL**
**£40K - £60K+ BONUS**
Leading Derivatives house seeks a Developer with a minimum of two years C++ /SQL expertise. As part of the front office money markets team, you will help price yield curves and build risk management systems. The successful candidate will have a strong academic background coupled with excellent communication skills and strong technical knowledge. Preference will be given to those with money markets experience. A first class opportunity.

**MARKET RISK ANALYST**
**TO £40K + BENS + BONUS**
Leading Derivatives house specialising in exotic and structured products, transactions and trading strategies seeks Market Risk Analysts. Working across all product ranges, you will assist the team in carrying out risk analysis for traders and industry groups. Successful candidates will have a very strong numerical background with a minimum of a 2.i degree in mathematics, a demonstrated ability to grasp new concepts quickly, report writing skills and a genuine desire to work in risk management.

**VC++/MATHS**
**£40K - £60K + BONUS**
Premier US market maker seeks a Financial Engineer with a minimum of 2 years C++ expertise coupled with excellent mathematical abilities. Working with the quantitative team, you will help build analytics libraries for the exotic interest rates desk. Candidates with exemplary academic qualifications and strong communication skills are encouraged to apply.

**EXCEL VBA/FIXED INCOME**
**£40K - £50K + BONUS**
Fixed Income Exotic Derivatives group of this premier US Investment Bank seeks bright graduates with at least 12 months experience of Excel within a front office environment. You will join a small global team developing flexible pricing for new exotic products, supporting marketers and traders. A good maths related degree is essential, as is the enthusiasm to deliver systems within strict timescales. A fabulous career move.

**VISUAL C++/COM/ACTIVEX**
**TO £60K + BONUS + BENS**
US Bank seeks highest quality Developers for their Equities group. Working on business critical systems using C++, COM and ActiveX on an NT4 platform porting to CORBA middleware on UNIX. You will have a minimum of 12 months experience and proven record of developing commercial products to an excellent standard as well as a strong academic background in a computing or mathematically intensive subject. Financial knowledge a plus. Our client seeks to bring in the best people possible and offer the package and prospects to match.

ARc

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ARC are preferred suppliers to the top financial institutions. This is a selection of current opportunities in the City. We have many more. Our consultants have an in-depth understanding of this market and how it can work best for you, so please call Stephen Haseltine or Paul Wilkins on 0171 287 2525 to discuss your options. Alternatively please send, fax or e-mail your CV to us at: ARC Recruitment, 15-16 New Burlington St, London W1X 1FF. Fax: 0171 287 9888. E-mail: arc@itjobs.co.uk

## INVESTMENT BANKING

City — **BUSINESS ANALYSTS / PROJECT MANAGERS** — to £55,000 + Bens

The leading European Investment Bank is currently searching for business focused Analysts and Project Managers to complement their existing and outstanding global IT infrastructure.

Uniquely, these candidates are to further facilitate globalisation within the organisation. The London office is central to the firm's IT development, providing a complete range of investment and financial services within their Equities business area.

Key to these roles is the understanding of client needs and responding effectively to their requirements, the ability to translate these into effective solutions and managing the clients' expectations. The analysis work must be succinct and of high quality as the project is running to significantly tight deadlines.

Professional and technical attributes sought would include providing critical business analysis, requirements capture and documentation, strong interpersonal skills, previous experience in medium scale client/server implementations, test planning, testing, and knowledge of middle-back office processing preferably in Equities.

The first phase of this project is underway and involves migrating an existing application onto a strategic architecture and a strategic data model. Interested candidates should be able to demonstrate a strong commitment to the business and IT functions of a large organisation. All candidates should come from a solid IT development cycle background and be obviously experienced and capable of driving the business forward from an IT perspective.

Please contact Danielle Lorenz or Andrew Summers

H[redacted]y

Telephone: 0171 335 5858
Mobile: 0468 175 002
Fax: 0171 335 0008
Email: d.lorenz@huxley.co.uk
a.summers@huxley.co.uk

INVESTMENT BANKING
*America House, 2 America Square, London EC3N 2AH*

## QUANTITATIVE DEVELOPER

Our client is a leading European Investment Bank looking to refocus its Equity Derivatives activities. With a long history of supplying an exemplary service to its customers in both Interest Rates and Equity Derivatives our client is looking to re-define its IT strategy to support their Derivatives Traders / Quants and Sales. In order to deliver they require the following:

***Hands-on Pricing and Analytical Developer***

Defining architecture for the base of Equity and Interest Rate derivatives, positioned alongside the Traders/Quants the ideal candidate will have traditional RAD skills as well as a very strong analytical and academic background. The role will be very quantitative in relation to the business supported.

✓Understanding in detail of pricing principles of Vanilla/Exotic Options
✓Experience of pricing components of Black-Scholes models, Yield Curve and Dividend handling within pricing
✓Pricing/Risk Management (Market)/Risk Modelling/Risk Arbitrage

Technologies: A subset of the following:

✓Visual C++ ✓C/C++
✓MS Visual Basic ✓Excel
✓COM/DCOM ✓ActiveX

At least two years' experience of the above combined with a sound understanding of Equity/IR products (analytics and pricing).

*Please contact:*
*Alex Blair, Mike Sherwin or Sally Mullan*

H[redacted]y

Telephone: 0171 335 5890
Email: jobs@huxley.co.uk

INVESTMENT BANKING
*America House, 2 America Square, London EC3N 2AH*

## SENIOR QUANTITATIVE ANALYST
## C++ QUANTITATIVE DEVELOPERS

### GLOBAL INVESTMENT BANK
***FIXED INCOME AND CONVERTIBLE BONDS***

**£££ SUPERB PACKAGES** — **CITY**

This is one of Europe's and the world's most successful banking institutions with a powerful global presence and a strong reputation for leadership in financial product development and technical innovation. They are now seeking to recruit a talented quantitative analyst and a number of quantitative developers to further strengthen both their London trading activities and various new risk management initiatives. Both quantitative analysts and developers work together to develop, enhance and integrate trading and market risk models, libraries and strategies.

You should boast an excellent science/ mathematics academic background including a 1st/2.1 honours degree from a top-tier university and preferably a higher degree. You should have a minimum of one year's financial experience. For the developer positions a strong software engineering background is required. Successful candidates will have excellent C/C++ and some of the following: VisualC++, Visual Basic, Excel, Numerical Methods etc. Enthusiasm will be a distinct advantage.

Remuneration packages are superb and include substantial bonuses and benefits and a review in six months.

In the strictest confidence, please send a full CV to *Craig Millar or Shelley Ashton at Millar Associates,* 6 Sloane Street, Knightsbridge, London SW1X 9LE.
Please quote reference FT2608
Tel: 0171 823 2222. Fax: 0171 823 2208.
Email: millarassociates@sw1.telme.com

Millar Associates
INTERNATIONAL SEARCH & SELECTION

**BANKING FINANCE & GENERAL APPOINTMENTS**

## Quantitative Research Analyst

**Shell Pensions Management Services Limited, responsible for managing a number of Royal Dutch/Shell Group pension and insurance funds, with total assets under management of approximately £10 billion, is seeking to recruit a Quantitative Research Analyst for its small and highly successful Quantitative Research team.**

**The rôle will include the maintenance and enhancement of in-house Tactical Asset Allocation models, periodic rebalancing of index fund mandates, conducting original research for other long term quantitative projects, the provision of ad hoc quantitative research support to our investment managers and the support of related PC-based applications.**

**The post will require the ability to communicate at all levels of management and to work closely with the front office investment team.**

**Ideally you will have at least an upper second class degree in economics, econometrics or a related discipline and have a thorough knowledge of economics, statistics and personal computing, with one or two years experience in investment management. The ideal candidate will need to be able to work with imagination and tenacity on long term research projects and establish his or her own priorities.**

**An attractive compensation package is offered together with excellent benefits.**

**Please write with full CV and details of your present salary to:**

Managing Director (SPMS),
Shell Pensions Management Services Ltd.
Shell Centre, London SE1 7NA

Royal/Dutch Shell Group

## SENIOR SALES PERSON
### Global Foreign Exchange Trading

**Competitive Package** — **London based**

A major global investment bank is seeking to add a Senior Sales Person to its Foreign Exchange Team. The Company places high emphasis on innovation and teamwork in addition to an obvious drive for bottom-line success. This vacancy reflects stragetic growth of its Global FX activities.

*We therefore invite applications from candidates* who are qualified to degree level with experience of marketing to institutional investors, proprietary trading groups and fund managers. You should have a minimum of 7 years' experience covering these accounts with a proven track record of developing new business and in depth knowledge of FX, cash, derivatives, fixed income and equity markets. In addition, candidates should be suited to creating strategies and investment products for this client base.

To apply, please write with full CV, to: Ben Wood, Vine Potterton Ltd, Suite 26 Ludgate House, *107-111 Fleet Street, London EC4A 2AB.*

Applications will only be forwarded to this client. However, please indicate any organisations to *whom your details should not be sent.*

VINE POTTERTON
RECRUITMENT ADVERTISING

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Our client is the largest bank holding company in the United States, a global leader with a presence in over 50 countries. An opportunity has arisen for a highly motivated individual to join the Global Syndicated Finance group at Vice President level.

As well as the ability to build a rapport with clients and explain financing structures in a comprehensive manner, you will also meet the following requirements:

- 10 years' post-graduate Investment Banking experience
- An MBA from a leading business school
- At least three European languages
- Emerging market experience
- Strong credit background and corporate finance skills including financial advisory and the ability to structure and negotiate syndicated bank transactions
- Five years' experience in highly leveraged buyout/restructuring
- Five years' experience in distribution

*In return, you will be rewarded with a competitive remuneration* package, including a full range of banking benefits and discretionary performance-related bonus. You will also have the opportunity to make a major contribution to the success of the Distribution and Sales group of the Syndicated Finance department.

To apply, write with full CV to Park Recruitment & Assessment, 3 Portland Place, London W1N 4HR, quoting reference VP/FTI/26/08.

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We are seeking an individual who has detailed knowledge of SFA rules, either as a regulator or with relevant experience from already working in a broking environment. The successful candidate must be assertive and fully responsible for the firm's compliance function. The remuneration offered is competitive for this position.

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**Mr H C Stevenson, Permanent House, Horsefair Street, Leicester, LE1 5BU**

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**MARKETING** INTERNET ADVERTISING

# Net ads fail the soap test

Procter & Gamble is not alone in worrying about the future of mass media, writes **Richard Tomkins**

You're Procter & Gamble, the US consumer products group; you're the world's biggest advertiser; and a nagging worry has worked its way to the forefront of your mind.

Where are you going to be advertising your soaps, detergents and toothpastes in five years' time?

In the 1940s, Procter & Gamble spent more than half its advertising dollars on radio. Then came television: and in only five years, from 1950 to 1955, the new medium's share of Procter & Gamble's advertising budget shot up from nearly nothing to 80 per cent.

With the advent of the internet, another media revolution is under way. In the US, the internet is already eating into the time people spend watching television, and the number of internet users is growing fast.

That poses at least two important questions for Procter & Gamble. Should the company be preparing to switch 80 per cent of its advertising budget to this new medium in the next five years? And if so, just how is it supposed to advertise its mundane household products on the internet?

Last week, at its headquarters in Cincinnati, Ohio, Procter & Gamble hosted an extraordinary two-day summit to discuss these issues – extraordinary in that it included representatives of arch-rivals such as Unilever and Colgate-Palmolive as well as scores of people from the advertising and interactive media industries.

The conference turned out to be better at questions than answers. But it forced some serious thinking about the problems confronting consumer goods companies such as Procter & Gamble as they enter the internet age.

The biggest of these is the fundamental difference between television and the internet. In the US, television – like radio before it – evolved hand-in-hand with advertising as a form of mass-market entertainment. From the start, programmes were interspersed with 30- or 60-second slots that gave advertisers the opportunity to deliver attention-grabbing messages to vast audiences.

The internet, in contrast, evolved mainly as an information resource used by individuals, and its originators saw no need for advertising support. Little thought was given to what form advertisements might take.

Advertisements started to appear on the internet only four years ago, and the format has not changed much. Most consist of a simple rectangular banner which, if clicked with a mouse, takes the user to the advertiser's website.

**For the technology resistant majority, it is hard to imagine that in five years the internet will have usurped television**

These banners are often animated, and some emit little noises. But they rarely attract more than a glance and if users fail to click on them, as most do, the advertisements have nowhere near the same effect as television commercials which engage viewers with full-motion video and sound.

The comparison would change if only users could be persuaded to click on the ads, because that would bring out the internet's big advantage over television: its potential for interaction. Once drawn into an advertiser's web site, a passive viewer is transformed into an active participant and becomes much more likely to absorb, and respond to, an advertiser's message.

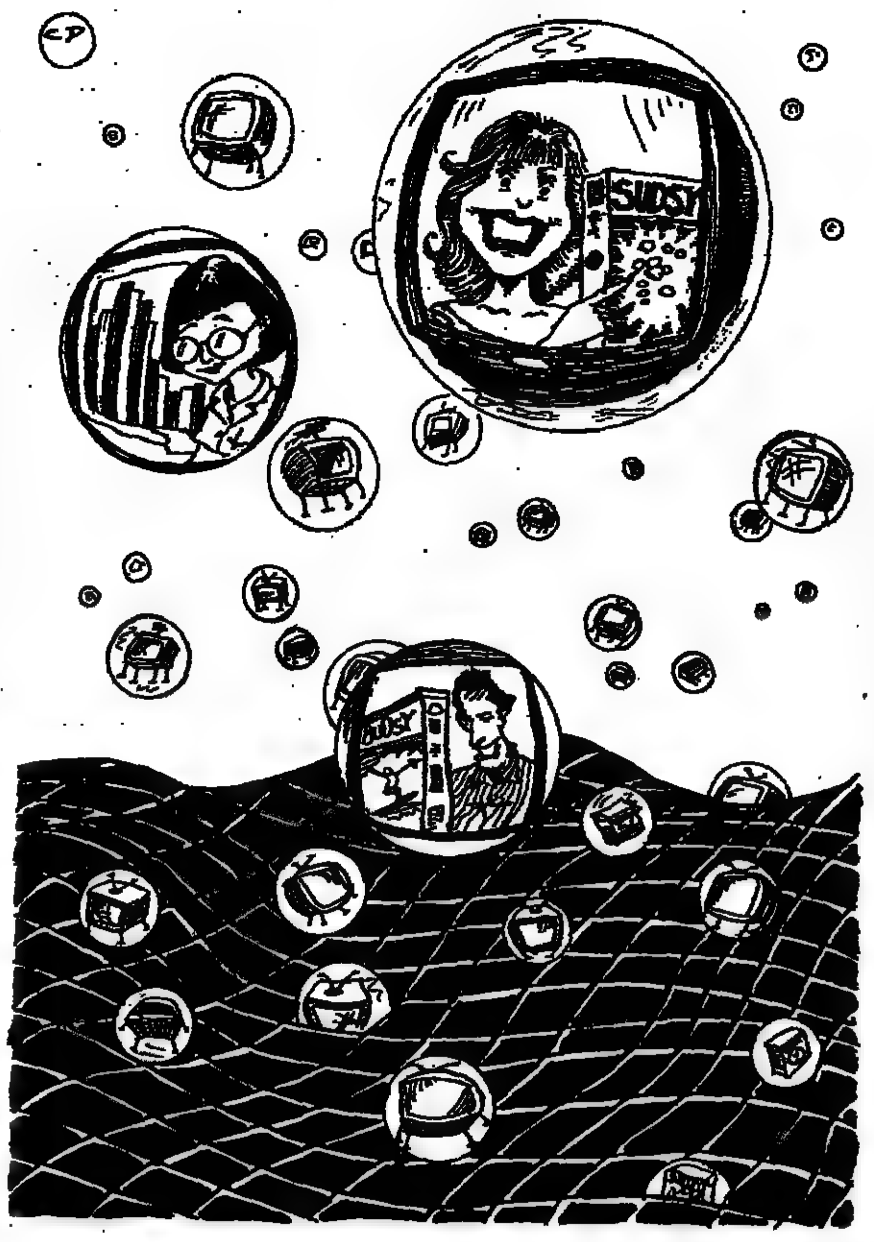
But Procter & Gamble is ill-equipped to provoke this response. Even banner ads for exciting, internet-related products and services produce lamentably few clicks, so banner ads for soap powder are never going to stop web surfers in their tracks.

That explains why you so rarely see an advertisement for toothpaste or shampoo on the internet. Consumer goods manufacturers are fairly certain that, for them, internet advertising in its present form is a waste of money. Procter & Gamble is currently spending only 0.4 per cent of its $3bn-a-year advertising budget on the internet.

Procter & Gamble and other consumer goods companies want to change the landscape for internet advertising by more sophisticated means of prompting that all-important interaction.

Recent research has produced the unsurprising finding that larger, more complex advertisements provoke a bigger response than banner ads. So advertisers would like more use of formats such as "interstitials": full-screen ads that pop up while users' computers are downloading new pages.

But ads like these run the risk of alienating users if, as so often, they delay downloading. And web site owners sometimes refuse to accept them for fear they will discourage people from visiting their sites. Greater sophistication brings other problems. The more complex an ad becomes, the longer it takes to download, adding to already frustrating delays. And even in the technologically advanced US, many people's computers lack the capacity to handle so-called rich media ads incorporating sound, animation and 3D.



Last year, for example, Procter & Gamble came up with an experimental ad for its Bounty kitchen towel in which a virtual "spill" would spread across the screen before being wiped up by a Bounty paper towel. But the ad found almost no takers because of technological issues such as download times, third-party server integration, and browser compatibility.

While Procter & Gamble has been banging heads together in the hope of finding solutions to such problems, Unilever, its Anglo-Dutch rival, has been active, too. It recently agreed to invest $20m in partnerships with America Online and Microsoft to explore ways of advertising its hundreds of branded goods on the internet.

It has also signed a deal with NetGrocer, a US online supermarket, giving it exclusive rights to promote and to test its brands on Net Grocer's site in several product categories.

Procter & Gamble and Unilever are right to worry about the future, but it is tempting to ask whether they are worrying too much. For the technology-resistant majority, it is hard to imagine that in five years, or even in 10, the internet will have usurped television as the main form of home entertainment.

In May 1994, Ed Artzt, then Procter & Gamble's chairman and chief executive, started a scare about the threat of the media revolution and summoned advertising executives to tell him where Procter & Gamble's advertisements were going to appear in five years' time.

With only months before the fifth anniversary of Mr Artzt's question, the answer is the same today as then: overwhelmingly, on boring, old-fashioned television.

**TECHNOLOGY** GAMES SOFTWARE

# Machines beaten from the word Go

Amateurs may still outplay programs at the oriental game, says **Michael Fitzpatrick**

Today sees the start of a tournament where man has a chance to wrest some dignity back from computers.

Chess may have shown signs of succumbing to the might of the machine but in the oriental game of Go humans are still supreme, as the FOST Cup Go championship is sure to prove in Tokyo.

Computers programmed to play Go will fight it out but the digital victor will find it hard even to draw with a rank amateur.

The FOST cup, which is organised by the Yokohama-based Foundation for the Fusion of Science And Technology, will act as a kind of showcase for the development of artificial intelligence, say its organisers. Computer Go fanatics worldwide will be eagerly watching to see who will claim the Yim FOST Cup prize.

A Taiwanese educational foundation, the Ing Chang-ki Wei-Chi, is offering a $1.4m (£840,000) prize for a program that can beat a human champion by the year 2000. The foundation can be pretty confident of keeping its money; not even the calculating might of the IBM 'Deep Blue' computer, which beat Garry Kasparov at chess last year, can come close to matching the expertise of the best Go players.

Koichiro Ishihara, the director of the FOST tournament, explained why the task facing the computer programmers is so difficult.

"The board size is large and the number of moves in a game often exceeds 250, which means there are so many choices of moves. There are only two colours of stones and the rules are rather simple. However, it is very difficult to decide the value of moves," he said.

Go, which originated in China, is played around the world by more than 25m people. Most of them are in south-east Asia; Europe may have as many as 100,000 players; the US as many as 20,000.

It is played on a deceptively simple board with 180 white 'stones' and 181 black stones. A full-size Go board has a grid of 19 horizontal and 19 vertical lines and the stones are placed on the board's 361 intersections.

Go's complexity stems from the huge number of possibilities for each move, which total $10^{75}$, and that can be learned only from repeated play.

"You are talking about calculations that are beyond even the most powerful computers around," says John Gibson, secretary of the Irish Go Association. Even a couple of Cray Super computers side by side could not play a reasonable game.

But the programmers are not going to give in easily. Yasuki Saito and Atsushi Yoshikawa, researchers at Japanese telecommunications giant NTT, are analysing the way top players operate by fitting them with special goggles equipped with miniature cameras that track eye movements. The researchers log the directions in which the players look in an attempt to synthesise intuition. They admit their program falls short of human intelligence but hope their strategy will help them win some day soon.

Mr Ishihara thinks they will have a long wait. "Some people say that computers will defeat human professionals before 2050. But others say it will never happen. My opinion is that it won't happen in the 21st century."

## BUSINESSES FOR SALE

KPMG

YARDLEY

### Old Bond Street Holding Company Limited and subsidiaries incorporating Yardley and Company Limited ("the Yardley Group")

**Tony Thompson & Roger Oldfield appointed Joint Administrative Receivers on 26 August 1998**

The Joint Administrative Receivers offer for sale the business, brands and assets of the Yardley group of companies:

- Principal asset is the Yardley brand and its widely known sub-brands worldwide (other than in the Americas);
- Reputation for high quality product;
- Strong brand heritage and awareness bolstered by consistent global advertising;
- Three key sales categories – cosmetics, female fragrances and bath luxuries which are growing in most countries of operation;
- Products marketed in over 110 countries through four regional divisions:
  - UK
  - Middle East and Europe
  - Australia and New Zealand
  - Far East, including Singapore and Malaysia;
- Subsidiary companies in Australia, New Zealand, Singapore and Malaysia.

**For further information contact Tony Thompson, PO Box 730, 20 Farringdon Street, London EC4A 4PP. Telephone: +44 (0) 171 311 1000 Fax: +44 (0) 171 311 3607 E mail: tony.thompson@kpmg.co.uk**

**KPMG Corporate Recovery**

KPMG is authorised by the Institute of Chartered Accountants in England and Wales to carry on Investment Business.

### Showpla UK Limited

In administrative receivership

*The joint administrative receivers, WR Tacon and CK Rayment, offer for sale the business and assets of the above company.*

- *Manufacturer of large injection mouldings principally supplied to 'teletronics' and automotive industries*
- *Annual turnover in year ended 30 June 1998 of £8 million, substantial order book, projected annual turnover of £10 million*
- *Modern, freehold 66,000 square foot (approx) factory premises located near Walsall, Staffordshire on 3.7 acre site*
- *19 modern injection moulding machines with 80 to 1600 tonne capability*

*For further information, please contact: William Tacon or Kim Rayment at Ernst & Young, One Colmore Row, Birmingham B3 2DB Tel: 0121 232 4286/4151, Fax: 0121 232 4448.*

ERNST & YOUNG

*The United Kingdom firm of Ernst & Young is a member of Ernst & Young International and is authorised by The Institute of Chartered Accountants in England and Wales to carry on investment business.*

### SEEKS MERGER OR SALE

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Midlands Based

*£2.5M Turnover*

Box B6039, Financial Times, One Southwark Bridge, London SE1 9HL

ETBA Finance

**ECONOMIC & FINANCIAL SERVICES S.A. (formerly GREEK EXPORTS S.A.)**

### ANNOUNCEMENT

**OF A THIRD PUBLIC AUCTION FOR THE HIGHEST BIDDER FOR THE SALE OF THE TOTAL ASSETS OF NITROGENOUS FERTILISERS INDUSTRY (A.E.B.A.L.) S.A. NOW UNDER SPECIAL LIQUIDATION**

ETBA FINANCE Economic and Financial S.A. (established in Athens at 1 Eratosthenous St.), in its capacity as special liquidator, in accordance with Decision 1/15.1.1998 of the Western Macedonia Court of Appeal, of the above company which has been placed under special liquidation as per article 46a of Law 1892/1990 as complemented by article 14 of Law 2000/1991, as in force today, and following the instructions of ETBA S.A. and DEH S.A. of 17/7/1998 and 21/7/1998, creditors as per paragraph 1 of article 46a of Law 1892/1990

**ANNOUNCES**

a third public auction for the highest bidder with sealed, binding offers for the sale, as a whole, of the assets of NITROGENOUS FERTILISERS INDUSTRY (A.E.B.A.L.) S.A. which is now under liquidation.

**ACTIVITY AND SUMMARY DESCRIPTION OF THE COMPANY**

The company NITROGENOUS FERTILISERS INDUSTRY (A.E.B.A.L.) S.A. is established in the municipality of Ptolemais in the prefecture of Kozani and installed on a plot of land about 1,792,220 m² in area. The buildings cover a total area of about 100,000 m² in various parts of the estate according to production requirements. The factory lies about 4 km. northeast of Ptolemais and about 28 km. northwest of Kozani. A.E.B.A.L. produces and sells simple nitrogenous fertilisers such as nitric ammonia, calcareous nitric ammonia, sulphuric ammonia 21% and compound fertilisers. More information on its products and the capacity of each unit are contained in the Offering Memorandum.

**Terms of the Announcement**

1. The auction will be conducted in accordance with the provisions of article 46a of Law 1892/1990 as supplemented by article 14 of Law 2000/1991 as currently in force; the terms contained in the present announcement and the terms contained in the Offering Memorandum, regardless of whether or not they are repeated in the present. The submission of a binding offer implies acceptance of all these terms.
2. For a fuller awareness of the company for sale, interested buyers are invited to receive, on signature of a confidentiality agreement, the detailed Offering Memorandum and ask for any other information.
3. In order to participate in the auction, interested parties must submit a sealed, binding offer to the notary public assigned to the auction, Mrs. Despina Kyratzi-Synodinou, at 48, 25th March Street in Ptolemais, tel. 30+463+26726 from 9 - 12:00 hours on Monday, 21st September 1998. The submission of offers should be made in person or by a legally authorised representative. Offers submitted beyond the time limit will not be accepted or taken into consideration. Offers must not contain terms upon which their bindingness will depend or which create vagueness with regard to the amount or the method of payment of the offered price or with regard to any other essential points. The liquidator and the creditors maintain the right, at their incontrovertible discretion, to reject offers which contain terms and exceptions, even if they are higher than other offers, or consider them to be non-contained, in which case the offer remains binding with regard to the rest of its content.
4. Offers must be accompanied, on penalty of cancellation of the offer, by a letter of guarantee from a bank legally operating in Greece, to the amount of two hundred and fifty million drachmas (GDR 250,000,000) as per specimen contained in the Offering Memorandum, valid until its return to the guarantor bank and guaranteeing both the substance of the offer submitted and any improvements made to it.
5. The offers will be opened by the notary in her office at 14:00 hours on Monday, 21st September 1998. Interested parties who have submitted binding offers within the time limit are entitled to attend the opening of the offers.
6. Offers must specifically state the offered amount and method of payment (in cash or on credit, the number of instalments, when they are to be paid and the interest during the entire period of settlement. If there is no reference to a) the method of payment, b) whether the part on credit will bear interest or not, and c) the interest rate to be calculated, it will be considered correspondingly that a) payment will be in cash, b) the part on credit will be paid without interest and c) the interest on any part on credit will be calucated at the legal judicial rate in force at the time.
7. Essential criteria for evaluating the offers are: a) the size of the amount offered, b) the number of job positions to be created, c) the guarantees provided for settlement of the balance on credit and the fulfilment of other terms, d) the reliability and credit worthiness of the interested party, e) the business plan and in particular the height of proposed investments and f) the commitment to keeping the business running and for how long.
8. For all the above points as well as for the remaining terms to be agreed upon (job positions, height of investments, etc.) the buyer must accept penalty clauses, additionally covered by property or other securities, which will guarantee compliance with the terms agreed upon.
9. The elements which make up the company's assets shall be sold "as is and where is" and, more specifically, in their actual and legal condition and at the place where they are situated on the day of signature of the sale contract. The liquidator and the creditors are not responsible for legal or actual defects or deficiencies of any kind of the assets for sale, nor for any incomplete or inaccurate description of them in the Offering Memorandum. Interested parties, should, with their own means and diligence and at their own expense, look into and form their own assessment of the objects for sale. The submission of an offer implies that the interested party is fully aware of the legal and actual state of the objects for sale.
10. In the event that part payment is on credit, the present value will be taken into account in evaluating the offer, which will be calculated on the basis of a 12% annual discount rate.
11. In the event that the person to whom the assets of the company under liquidation are adjudicated fails in his obligation to appear at the time and place specified in the liquidator's invitation, in order to sign the relative contract in accordance with the terms of the present Announcement and of his offer, as finally composed, then the guarantee, as above, is forfeited in favour of the liquidator and the creditors in order to cover all expenses of any kind, time spent and real of hypothetical losses sustained, with no obligation to provide proof of such, and consider the amount as a penalty clause and collect it from the guarantor bank.
12. The liquidator bears no responsibility towards participants in the auction, both with regard to the report assessing the offers or to his proposal of the highest bidder. Also, he is not liable and has no obligation to the participants in the auction in the event that the auction is cancelled or declared null and void if its result is deemed unsatisfactory.
13. Those parties taking part in the auction and submitting offers do not acquire any right, claim or demand from the present Announcement and from their participation in the auction, against the liqudator or the creditors for any cause or reason.
14. According to para. 13 of article 46a of Law 1892/1990 the sale contract and the necessary transfers accruing from it and any other relative transaction are exempted from taxes, dues or state or third party rights or stamp duties, while the rights and fees of notaries, lawyers, supervisors and mortgagors are restricted to 30%. Any expenses incurred in the sale of the assets (VAT, the fees of lawyers, notaries and mortgagors, judiciary supervisors, etc. rights and other expenses) are to be borne by the buyer. The present was drafted in Greek and translated into English. However, in the event of differences occurring in translation, the Greek text will prevail.

In order to obtain the Offering Memorandum and for any additional information, please apply to the offices of the liquidator 1 Eratosthenous & Vass. Constantinou Sts. Athens, Tel. (301) 7260210, 7260258, 7260506 and Fax (301) 7260864 and at the company's factory at Ptolemais Tel. (30463) 22241, Fax (30463) 28822.

## CONTRACTS & TENDERS

**REPUBLIC OF CAMEROON**

**MINISTRY OF THE ECONOMY AND FINANCE**

### INTERNATIONAL CALL FOR BIDS FOR THE PRIVATISATION OF THE CAMEROON INSURANCE COMPANY (SOCAR)

As part of its program of restructuring and privatising public and semi-public enterprises, the Government of Cameroon wishes to establish two new insurance companies (one general insurance and the other life insurance), in collaboration with private sector investors, to replace SOCAR Insurance Company.

Cameroon is at the centre of an economic and monetary union (CEMAC) grouping six countries in central Africa. Investors will enjoy immediate access to the insurance markets of Cameroon's neighbours.

SOCAR was created in September 1973. Its shares are held by the Cameroonian government (36%), public-sector entities(20%) and various foreign interests (44%). For many years, SOCAR was the most important insurance company in not only Cameroon but also in francophone Black Africa.

An international call for bids is being launched to find a shareholder to acquire a majority stake of at least 51% in the new companies. The minimum amount of capital is set at CFAF 2 Billion (FF 20 Million or USD 3.33 Million) for the general insurance company and at CFAF 250 Million (FF 2.5 Million or USD 416,000) for the life insurance company.

Parties seeking to take a majority stake in either of the two new insurance companies should be insurance or reinsurance companies with reputable and financially sound backgrounds. The government will allow companies without the necessary insurance or reinsurance expertise to take a majority stake in the new insurance companies under conditions spelled out in the information memorandum and terms of reference.

Potential investors can obtain an English or French information memorandum on this privatisation project along with a complete package of tender documents by contacting the individuals noted below.

Investors can join with Cameroonian or foreign interests to submit a joint bid. Those investors willing to take a minority interest in the new companies can submit an expression of interest to the Insurance Division of the Ministry of the Economy and Finance's offices. Once the winning bid has been selected, they will be advised of the price of shares established through the bidding process and invited to subscribe for shares at that same price.

Bids should be received by no later than Thursday, October 1st at the Ministry of the Economy and Finance's offices (as below).

M. Samuel Obam-Mbom
Director of Economic Controls and External Finance
Ministry of Economy and Finance
Postal Box 24
Yaoundé, Republic of Cameroon
Tel: (237) 22 49 53 or (237) 22 19 63 or (237) 21 49 75
Fax: (237) 23 35 22 or (237) 23 34 85 or (237) 23 35 27

Or

Mr Georges Ononemang
Chief, Insurance Division
Ministry of the Economy and Finance
Postal Box 24
Yaoundé, Republic of Cameroon
Tel: (237) 22 21 09

The Minister of State for the Economy and Finance
LE MINISTRE DELEGUE
Pr. Jean Marie GANKOU

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**SOUTHAMPTON CITY COUNCIL**

### TENDER FOR FEASIBILITY STUDY

**Quotation For The Provision Of A Feasibility Study Into The Potential Of A PFI Funded Anaerobic Digester And The Subsequent Development Of An Outline Business Case**

SOUTHAMPTON CITY COUNCIL invites applications from consultants who wish to quote for the provision of a feasibility study into the potential of a PFI funded anaerobic digester and the subsequent development of an outline business case

Consultants wishing to quote should apply in writing, providing the following information, to Mr R T Eyles, Corporate Contracts, 3rd Floor, Overline House, Blechynden Terrace, Southampton SO15 1GW, or by fax on (01703) 832751, by no later than **Monday 14th September 1998**.

If the consultancy is a subsidiary of a parent company the information must be provided for the parent company as well.

(i) Firm's name, registration number, trading address and registered office;
(ii) Name and address of the firm's bankers;
(iii) A set of the last year's audited accounts;
(iv) Examples of similar work carried out over the last three years, including values, clients and dates.
(v) Names and addresses of three referees from whom references may be sought.

Further information can be obtained by contacting Mr Richard Eyles on (01703) 832467

SOUTHAMPTON CITY COUNCIL

GLIMMERGLASS FESTIVAL

# Opera-house that bucks the trend

**Martin Bernheimer** enjoys the balance of the esoteric, the complex and the sure-fire on offer this season

The grey clapboard opera-house looms with stubborn dignity amid the bucolic greenery, a deliriously unseemly and perversely delightful mirage. It doesn't just defy common logic, it contradicts most of the sad facts of artistic life in America's dark and dismal 1990s. But there it is, a democratic and astonishingly successful Glyndebourne of sorts, nestled on a hillock outside a *quaint*, sweet and sleepy village primarily celebrated, until recently, as home of that all-American cultural institution, the Baseball Hall of Fame.

The Glimmerglass Opera, which began with a brave *Bohème* at the local high school in 1975, moved to its independent 920-seat home, and to national – perhaps international – prominence in 1987. Essentially, the company is the brainchild of Paul Kellog, who now runs the rustic endeavour as something akin to the summer try-out home of the other institution under his command, the New York City Opera of Lincoln Center.

A visionary with feet planted firmly on the upstate earth, Kellog has managed to respect a delicate balance between standard-repertory ritual and adventure. And he has done so with a resident ensemble of artists notable for talent and a healthy willingness to take risks, not with a collection of expensive itinerant stars. No, Pavarotti doesn't wave his little white tablecloth here. Glimmerglass concentrates on opera as intimate and integrated, even modern, drama. As such, it bucks the popular trend.

The current season balances *Falstaff*, possibly the most difficult and most esoteric of Verdi's mature operas, and Puccini's sure-fire *Tosca* against *Partenope*, a complex Handel exhumation; and *The Mother of Us All*, a sublimely ridiculous collaboration between the wise but crotchety Virgil Thomson and the profoundly elusive Gertrude Stein. According to official statistics, not incidentally, 51 per cent of the visitors to Glimmerglass drive two-and-a-half hours or more to attend the opera, a fact that no doubt explains the preponderance of matinees.

For this visitor, the Glimmerglass experience began inauspiciously with *Tosca*. Mark Lamos, a generally interesting producer, buried the melodrama in hoary clichés and grotesqueries, moving the action forward to Mussolini's Italy (forget about the battle of Marengo) and imposing all manner of Grand Guignol excesses. His greatest inspirations involved allowing Baron Scarpia, normally the most composed and most elegant of villains, to indulge in some auto-erotic flailings during the Te Deum and, inadvertently even more amusing, having the titular diva stab her nemesis, then adjust her makeup in a pocket mirror and spit daintily upon the corpse.

Stewart Robertson of Glasgow, the usually enlightened maestro on the premises, had trouble sustaining proper tensions with a scraggy orchestra and an inadequate cast headed by Amy Johnson as a lightweight Tosca whose chief distinction involved singing "Vissi d'arte" flat on her tummy. Ian DeNolfo, the Cavaradossi, did a lot of Wagnerian bellowing, occasionally on pitch, offset by a little sensitive crooning. Michele Bianchini, the voiceless Scarpia, performed the indecent acts visited upon him conscientiously, and, as the bumbling Sacristan, Dean Elzinga proved spastic way beyond the obnoxious call. Poor Puccini has fared better in academic workshops.

**A fearless and virtually peerless dramatic soprano named Lauren Flannigan told us all about Eve. Alas, it wasn't enough**

Under the circumstances, *Partenope* came as a pleasant shock the next afternoon. First performed in London in 1730 and long neglected thereafter, Handel's opera explores the florid formulas attending the historic strife of love and/or war in ancient Naples – in this instance the quasi-mythological affairs of the displaced princess of Phera.

The convoluted plot isn't very important. The convoluted arias are. They were dispatched here with dazzling ease and staggering brilliance by a well-matched ensemble led by Lisa Saffer as the delectably nymphomanaical, high-toned heroine and David Daniels, lush and nimble countertenor in excelsis, as her charmingly confused suitor Arsace. Francisco Negrin, abetted by designers John Conklin and Paul Steinberg, played out the semi-serious charades cleverly, in timeless, stylised modernity. Harry Bicket conducted with abiding self-effacing bravado. Faith was restored lavishly.

Kellog's crew sustained the aura on August 17 with the autumnal glories of *Falstaff*, affectionately conducted by George Manahan and delicately staged by Leon Major amid Vermeer-oriented set-pieces designed by Conklin.

The primary triumph belonged, however, to Mark Delavan, a robust, youthful baritone who sang – really sang – the title role, and sang it moreover with extraordinary power, clarity and intelligence. This unblustery Falstaff may have seen better days – and nights – but he was no one's buffoon, and he somehow managed to sustain a semblance of courtly dignity even when the fates and his adversaries were cruel.

He was nicely seconded by Stephen Powell and Amy Burton as the Fords, and heartily complemented by Mimi Lerner as an understated Quickly. The others, mostly promoted from Glimmerglass's training programme, worked diligently if not necessarily with maximum finesse.

In his ongoing quest for novelty and his ongoing desire to support the aesthetically underprivileged, Kellog added a "reading," that is, a concert performance, of a new opera, *Lilith*, by Deborah Drattell the next night. Intentions far outshone achievements in this case, the derivative score sounding like an exotic fusion of movie music, aimless parlando and screaming Strauss (anyone for *Elektra*?). A fearless and virtually peerless dramatic soprano named Lauren Flanigan told us all about Eve. Alas, it wasn't enough.

The causes of feminism and sociopolitical progression were far better served at the matinee of August 18 with *The Mother of Us All*. Robertson conducted with spiffy nonchalance, and Christopher Alden served the spirit, if not always the letter of this 1947 opus with bright iconoclastic invention.

Joanna Johnston conveyed the trials, tribulations and triumphs of Susan B. Anthony with immense pathos, easily eradicating memories of Mignon Dunn in the famous Santa Fe production. Allen Moyer's sets invoked storybook images with stubborn precision and salty wit. Above all, everyone reveled in the fey stars-and-stripes quirkiness of Thomson's score – aptly described by the composer himself as "an evocation of 19th-century America with is gospel hymns and cocky marches, its sentimental ballads, waltzes, darn-fool ditties and intoned sermons". All the elements seemed right at home in Glimmerglass.

DIVAS AT THE DONMAR WAREHOUSE

# Mellowed tone hits the spot

**Alastair Macaulay** reviews the 70-years-young Barbara Cook and finds her as beguiling as ever

Bringing her audience to the heart of the song: Barbara Cook — Alastair Muir

Caruso – according to a fellow-singer who had watched him almost all his career – became more himself as he grew older. Though the voice changed gradually from a sweet lyric tenor to a heroic near-baritone, and though parts of his repertory changed accordingly, the man himself grew only more evident in his music. (Just listen to his late recordings of Neopolitan songs to hear how true that is.) And he reached peaks of musical style and of interpretative intensity that would have been inconceivable in him 20 years before.

The same is true of Barbara Cook, who is singing this week at the Donmar Warehouse as part of its "Divas" season. She celebrated her 70th birthday last November, and she was a Broadway star – making some classic recordings – before many of us were born. You can go from those early Cook recordings to the way she sings today and hear just how her voice has mellowed and darkened; I think it has actually gained in texture and colour and complexity, but it has lost some of the sweet brightness of yore. It no longer sails above the stave, her virtuosity and her range of musical effects has diminished, and her breath control is slightly less firm. At the Donmar performance I attended, she had three small memory lapses, which she handled with a good humour that recalled tales of the autumnal Elisabeth Schwarzkopf in the same position. A few of her better-known songs she is now singing in downward transpositions.

The facts, however, remain impressive. She gives her audience over two hours (with one interval) of singing; her repertory is drawn from a wide era, spanning from songs that were written when she herself was a girl up to others written by authors still young today; and she includes some unfamiliar material. Although chronology tells us she must now be well into the autumn of her career, she sings with a power, a musical authority, and a beauty of verbal enunciation that shows an artist fully in command of her considerable art. In the week before this performance, I had heard singing in Edinburgh by Karin Mattila and Dmitri Hvorostovsky, opera stars I greatly admire and who are very much in the radiant early summers of their careers. Cook's performance was the most richly musical experience of all.

The important point about Cook, however, is not to place her on a good/better/best scale. After all, in her 70s, her technical resources must gradually continue to diminish; nor will her memory improve. What matters with Cook is chiefly the feeling she gives her audience of bringing them home to the heart of a song. She makes a lovely old chestnut like "This Nearly was Mine" (from *South Pacific*) sound new-minted; she takes a meandering ballad like Janis Ian's philosophical "Stars, they come and go" – and delivers it with a grasp of rhythm so firm that the architecture of each phrase lights up the large design of the entire song.

But one almost forgets this expressive core of Cook's art, because there is so much else to take in. In Duke Ellington's "I'm Beginning to see the Light", she attacks an upward scale (on the words "but now that your lips are burning mine") with an incisiveness and range of colour that are searing. The top of her voice can still blaze with clarion force, the more so as the evening proceeds. Returning to Noël Coward's "If Love were All", she still makes it a more encompassing, shapely, and serious utterance than any other singer ever has. And she is both funny (a wonderful song about circular versus rectangular experiences) and fun (dedicating the song "When I'm Cooking Breakfast for the one I Love" to "My Dear Good Friend Germaine Greer").

I hope one day she will give London again the *Porgy and Bess* medley she sang two years ago at the Café Royal – whereas I have now heard her do Amanda McBroom's song "Errol Flynn and my Daddy" twice too often. When one loses interest in a Barbara Cook song – it seldom happens – the reason is always that there isn't enough music in it to challenge her. She ends her Donmar programme with a medley of songs from *She Loves Me*, the musical with which she is most associated, and these songs in her hands are always fresh, funny, enchanting. In fact, this time she does a whole medley from that show, including not only her own character's songs but also the hero's (Daniel Massey, who created this role on Broadway, died recently).

Although I couldn't help wishing that she would also sing (as at Sadler's Wells in 1995) the "Library" song from this musical, her anthology becomes a delectable collage both of the central *She Loves Me* romance. Some of these songs make incomplete sense out of the show's context, yet Cook makes them a complete experience. It has been a long time since she was the earnest ingénue she once was in this and earlier musicals, and yet, as she sings, she becomes one again.

POP FUN LOVIN' CRIMINALS

# Wannabe bad boys take a few wrong turns

The album tries to give the listener a tour of New York's mean streets – with mixed results, says **Ludovic Hunter-Tilney**

The Fun Lovin' Criminals find their joys on the wrong side of the tracks. By diluting the more gritty extremes of gangster rap, this New York-based trio have created a well-crafted and palatable brand of mobster chic.

Their debut album, *Come Find Yourself*, studiously established its outlaw credentials by name-checking Mafia boss John Giotti and sampling dialogue from *Pulp Fiction*, while the music itself revealed the band as a rock outfit which borrowed liberally from hip hop, funk and jazz.

The album pulled off this musical larceny with refreshing bravura. *Come Find Yourself* did not expand any musical horizons, but it did lead the listener enjoyably through Manhattan lowlife.

The new album, *100% Colombian*, does not deviate far from this landscape. Tracks like "Southside" and "10th Street" still conjure up a New York that owes more to Scorsese's *Mean Streets* than Mayor Giuliani's zero tolerance campaign.

But the band has at least partially cleaned up its act. Perhaps realising that the cartoon-like capers of *Come Find Yourself* could not be sustained into a second album, they have opted instead for a more measured and reflective tone. The rumbustiousness has been toned down: the Fun Lovin' Criminals appear now in a more soulful guise.

Unfortunately, the results are disappointingly variable. "The View Belongs To Everyone" is a rare success, with its winning combination of wise-guy lyrics and uplifting, laid-back melody. But this peak soon gives way to the trough of "Sugar", singer Huey's paean to his pet hound, a whey-faced apologia for a soul song.

The first single from the album, "Love Unlimited", encapsulates these extremes. The song is a tribute to Barry White, the deep-voiced soul singer, but while it has a certain charm, "Love Unlimited" nonetheless hovers uncertainly between homage and parody. The resulting atmosphere is simply ersatz: a song that succeeds in dimming the lights but fails miserably to steam up the windows.

Those tracks that do aim to rabble-rouse inspire even less interest. "Korean Bodega" and "Southside" barely stir themselves from chugging, formulaic rock: they are entirely lacking in the brio and hip hop dash that so leavened the songs on *Come Find Yourself*. The final two tracks revert to old-fashioned blues and rock 'n' roll respectively, almost as if the band has given up all pretence to smooth moves.

*100% Colombian* ends with an announcer intoning the virtues of a limousine company over a tinkling cocktail jazz background. It precisely captures the ambience of knowing sophistication which the Fun Lovin' Criminals pursue, but the album suggests that this is still beyond them. Intending a suave glide through their home turf, *100% Colombian* sees them losing themselves in a series of wrong turns and dead ends.

INTERNATIONAL

# Arts Guide

## AMSTERDAM

EXHIBITION
**Rijksmuseum**
*Tel: 31-20-673 2121*
The Secret Unlocked: German Furniture Opened. Nine pieces dating from the end of the 16th to the end of the 18th century, chosen from the museum's collection of cabinets. Includes four pieces by the cabinet-makers Abraham and David Roentgen; to Aug 30

## BILBAO

EXHIBITION
**Guggenheim Museum Bilbao**
*Tel: 34-4-423 2799*
*www.guggenheim.org*
China - 5,000 Years: organised in collaboration with the Ministry of Culture of the People's Republic of China, comprising 500 works of art ranging from the Neolithic to the contemporary; to Sep 1

## CHICAGO

EXHIBITION
**Art Institute Of Chicago**
*Tel: 1-312-443 3600*
*www.artic.edu*
Songs on Stone: James McNeill Whistler and the Art of Lithography. Around 200 works by the American expatriate, including drawings, etchings and paintings, which demonstrate the importance of lithography to his art and his theory of art; to Aug 30

## COPENHAGEN

CONCERT
**Tivoli Concert Hall**
Los Angeles Philharmonic: conducted by Esa-Pekka Salonen in works by Copland, Mahler and Sibelius. With mezzo-soprano Lorraine Hunt; Aug 28

EXHIBITION
**Louisiana Museum of Modern Art, Humlebaek**
*Tel: 45-4919 0719*
*www.louisiana.dk*
Louisiana at 40: The Collection Today. Anniversary exhibition of the permanent collection, designed to showcase 40 years of work. Highlights include works by Giacometti; to Aug 30

## EDINBURGH

DANCE
**Edinburgh International Festival**
*Tel: 44-131-473 2000*
*www.go-edinburgh.co.uk*
Dutch National Ballet: Adagio Hammerklavier, Sarcasms, Twilight and Live - by Hans van Manen; Edinburgh Festival Theatre; Aug 29, 30

OPERA
**Edinburgh International Festival**
*Tel: 44-131-473 2000*
*www.go-edinburgh.co.uk*
Don Carlos: by Verdi. The Royal Opera in Luc Bondy's production, with sets by Gilles Aillaud and costumes by Moidele Bickel. The conductor is Bernard Haitink and the cast includes Karita Mattila and Thomas Hampson; Edinburgh Festival Theatre; Aug 28

THEATRE
**Edinburgh International Festival**
*Tel: 44-131-473 2000*
*www.go-edinburgh.co.uk*
Life is a Dream: by Calderón, in a translation by John Clifford. Royal Lyceum Theatre Company production directed and designed by Calixto Bieito; Royal Lyceum Theatre; Aug 28, 29

## LISBON

FESTIVAL
**Expo '98, May 22-Sep 30**
Dive into the Future: this performing arts festival comes under the Expo umbrella and includes the premiere of a new work by Alan Platel; to Aug 31

## LONDON

CONCERT
**BBC Proms, Royal Albert Hall**
*Tel: 44-171-589 8212*
Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Wolfgang Rihm, Schumann and Brahms. With piano soloist Maria Joao Peres; Aug 28

OPERA
**BBC Proms, Royal Albert Hall**
*Tel: 44-171-589 8212*
Simon Boccanegra: by Verdi. Semi-staged, Glyndebourne Festival Opera production conducted by Mark Elder with the London Philharmonic Orchestra and soprano Elena Prokina; Aug 29

## LUCERNE

CONCERTS
**International Festival of Music**
*Tel: 41-41-226 4400*
*www.LuceneMusic.ch/*
● Bayreuth Festival Orchestra and Choir: conducted by James Levine in a concert performance of Acts 2 and 3 of Die Götterdämmerung; Aug 30
● Bayreuth Festival Orchestra and Choir: conducted by Daniel Barenboim in a concert performance of Act 3 of Die Meistersinger von Nürnberg; Aug 31
● St. Petersburg Philharmonic Orchestra: conducted by Yuri Temirkanov in works by Rimsky-Korsakov, Prokofiev, Stravinsky and Ravel. With violin soloist Dimitri Sitkovetsky; Aug 28

## NEW YORK

EXHIBITION
**Pierpont Morgan Library**
*Tel: 1-212-685 0008*
a.k.a. Lewis Carroll: display of memorabilia marking the centenary of the death of Charles L. Dodgson (1832-1898), mathematician, photographer, but best known as the author of Alice in Wonderland; to Aug 30

## PARIS

EXHIBITION
**Jeu de Paume**
*Tel: 33-1-4703 1250*
In defiance of painting: "Je ne peins pas, je cloue mes tableaux", wrote Kurt Schwitters. This century has seen many artists forsake their brushes in favour of a variety of other implements. Burri, Fontana and Arman are some of the artists represented in this exhibition, which proposes to explore this dimension of painting; to Aug 30

## SALZBURG

OPERA
**Salzburg Festival**
*Tel: 43-662-844501*
● Le Nozze de Figaro: by Mozart. Conducted by Sir Charles Mackerras in a revival of Luc Bondy's staging, directed by Joël Lauwers. With the Vienna Philharmonic and Opera. Cast includes Dwayne Croft and Barbara Frittoli; Kleines Festspielhaus; Aug 29
● Saint François d'Assise: by Messiaen. Conducted by Kent Nagano in a staging by Peter Sellars. With the Hallé Orchestra and Schoenberg Choir, and a cast including José van Dam and Dawn Upshaw; Felsenreitschule; Aug 28, 30

THEATRE
**Salzburg Festival**
*Tel: 43-662-844501*
Geometry of Miracles: by Robert Lepage. Performance based on the life and work of the architect Frank Lloyd Wright. Co-production with Ex Machina, Quebec, and EXPO 1998 Lisbon; Perner Insel; Aug 28, 29

## SANTA FE

OPERA
**Santa Fe Opera**
*Tel: 1-505-986 5900*
*www.santafeopera.org*
● Madama Butterfly: by Puccini. John Crosby conducts a production directed by John Copley; Aug 29
● The Magic Flute: by Mozart. New production by Jonathan Miller, with sets by Roni Toren and costumes by Judy Levin. Cast includes Sheri Greenawald; Aug 28

## SCHLESWIG-HOLSTEIN

CONCERT
**Schleswig-Holstein Music Festival**
*Tel: 49-431-567 080*
NDR-Sinfonieorchester: conducted by Christoph Eschenbach in Mahler's Symphony No. 2. With the NDR-Chor and Chor des Bayerischen Rundfunks; Lübeck, Musik- und Kongresshalle; Aug 29, 30

## TOKYO

CONCERT
**Suntory Hall**
*Tel: 81-3-3584 9999*
New Japan Philharmonic: conducted by Kazuhiko Komatsu in a programme of new works by composers including Gondai; Aug 29

## VERONA

OPERA
**Arena di Verona**
*Tel: 39-045-800 5151*
*www.arena.it*
● Tosca: by Puccini. New production by Giuliano Montaldo. The conductor is Angelo Campori; Aug 28
● Un Ballo in Maschera: by Verdi. New production by Giuliano Montaldo. Conducted by Daniel Oren; Aug 29

## TV AND RADIO

● WORLD SERVICE
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● CNN International
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13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● Business/Market Reports: 05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

## COMMENT & ANALYSIS


The usual suspects: Boris Yeltsin, IMF managing director Michel Camdessus, Helmut Kohl, Lenin, and sacked prime minister Sergei Kiriyenko Andrew Buirs

# Who lost Russia?

**John Thornhill** says the finger is being pointed at everyone from speculators to the country's bright young reformers

As Russia's financial markets spiral out of control and the country peeks over the brink of an economic abyss, the eternal Russian question is being asked in Moscow: *Who is to blame?*

The same question is reverberating around other world capitals as well. In Washington, where the International Monetary Fund and the US Treasury have been instrumental in shaping Russia's economic policy, the whisper is already being heard: Who lost Russia?

Blame is not in short supply. Currency "speculators" of course come in for criticism. As Stanley Fischer, the IMF's first deputy managing director, remarked: "I am convinced that we could have pulled it off this time if it had not been George Soros and his call for devaluation."

Some say the west was wrong all along in supporting Russia, leading to unrealistic expectations and distorted policies. Doug Bereuter, a Republican Congressman from Nebraska, argues that "the Clinton administration has viewed Russia through an unrealistically optimistic and faulty prism. The administration has ... therefore been unable to shift scenarios, policies or programmes."

At the other end of the spectrum are those who say the west was not supportive enough. They argue that the Group of Seven large economies and the IMF made a historic mistake when they turned turned down Russia's request for extra help just before it devalued the rouble. "It was clear to me," said Mr Fischer "that the situation became untenable after the G7 did not hurry to help."

Supporters of more aid say that, expensive though it might have been, the cost of dealing with an unstable Russia could be much higher. Had it not been for the German election, some argue, Helmut Kohl, the chancellor, would have been more active in helping.

But most western policymakers reject criticism of the G7's role. One senior US official argues that "the international community four weeks ago committed a $22bn programme of support for Russia, and I think their judgment was that the roots of Russia's problem lay in questions about Russia's policy execution."

In other words, the failure of July 1998 lay at Russia's door, not at that of the international community. The IMF could not give more money because Russia was breaching conditions laid down in its programme. Parliament had failed to pass tax reforms essential to improving the budget.

So who inside Russia was to blame? And how did everything come to unravel?

Much blame must accrue to the young reformers – both in the Kiriyenko government and before – who did not understand the complexity of their task. Their critics say that the "sado-monetarist" policies they pursued were inappropriate for Russian conditions and failed to create credible market institutions.

The reformers' basic idea was that, once the bulk of the country's industrial enterprises had been privatised, the trade regime liberalised, and macroeconomic stability achieved, growth would automatically follow, just as it had in Poland, Hungary and the Czech Republic. The reformers had seen their future in eastern Europe – and it worked.

Global capital markets bought into their vision. The value of Russian share prices doubled in 1996 and again in 1997. And maybe, if the oil price had stayed at $20 a barrel, and the Asian crisis had never happened, Russia would have followed the benign path mapped out for it by the reformers.

But that did not happen. It has become clear that, while the reformers' model may have been valid for part of the economy, it did not capture the whole picture. The legacy of 74 years of Communist rule meant that large swathes of the economy were seemingly immune to market disciplines.

"Privatised" companies continued to be run like Soviet-era quasi-ministries, subtracting rather than adding value to their inputs. They failed to pay either taxes or their workers' wages. Loss-making industries reverted to barter trade, plunging workers into a largely non-cash economy.

Russians knew it was not working. More dollars circulated than roubles. And as $58bn of foreign capital flowed into the country between 1994 and 1997, at least $66bn of flight capital headed the other way.

Moreover, it became increasingly clear that the real influence over the economy was not being wielded by formal institutions, such as the ministry of finance or the central bank. Instead, informal relationships between money and power took precedence, with some state organs virtually "privatised" by big business. Some observers blame not the reformers, but rather the pernicious influence of these business interests for the failure of Russia's transition to a functioning market economy.

These economic and political deformities remained hidden under the garb of a quasi-market system. But that has ended. They have now been cruelly exposed by the falling oil price and the reverberations from Asia. The rouble was devalued.

In one sense, it is easy to see why it came to this. Although Russia was running an extremely tight monetary policy, it had an unsustainably loose fiscal regime. Between 1994 and 1997, fiscal deficits totalled $108bn, financed by an unsustainable pyramid of domestic debt.

Clifford Gaddy, fellow at the Brookings Institution, the Washington-based think-tank, argues that the reformers' efforts were largely futile. They were, he says, based on a fundamentally flawed understanding of how the economy worked.

"I think the IMF programme was doomed to fail," says Mr Gaddy. "The way the system now conceals the reality of cost almost as well as the Soviet system did is the fundamental problem ... There should be a great deal more honesty about what can be done on the basis of reality not on the pretence that Russia is well on the way to becoming a market economy."

Many Russians, quick to blame, are slow to face up to this reality. They still think of themselves as living in a superpower.

The truth is a little different. Russia's credit rating is below Indonesia's. The size of its economy is smaller than Switzerland's. And its stock market is worth less than the UK water industry. It is a low base from which to build anew.

**Beyond a bail-out: Time to face reality about Russia's "virtual economy". Clifford Gaddy and Barry Ickes. Available on the Brookings Institution web site. www.brook.edu*

PERSONAL VIEW DAVID J. ROTHKOPF

# Gravity and the global economy

The US must not retreat into protectionism if it is to maintain its influence during the coming world recession

The world is entering a period of economic downturn. The first signs of trouble came as Asia endured its initial shocks last year. These were just tremors. Greater upheavals may yet be on the way.

Japan, the weakest big link in the global economy, has shown no inclination to undertake the type of structural reform needed. The results of the recent government change are not encouraging; Japan's newest prime minister epitomises a system that promotes blandness and penalises creativity, the opposite of the leadership qualities now demanded. The yen has resumed its fall and new lows are likely.

Were the yen to hit about 160 to the dollar, neighbouring economies would be forced to respond. China, which has begun to cut back growth forecasts to as low as 4 or 5 per cent for 1998, might well be forced to devalue by the first quarter of next year.

This would put great pressure on Asia's other exporters. Indonesia, which has not resolved its political succession, would be hit hard. South Korea, Thailand and Malaysia, each struggling with capital shortages and lingering structural problems, would also be damaged. The result: a second phase to the Asia crisis that could send the region into a prolonged slump.

In Russia, where the economic crisis gets worse by the day, a financial problem could turn into a security problem given the country's nationalistic tendencies and its stockpile of nuclear weapons. Even if it does not, Russia's financial meltdown may spark another round of jitters among emerging markets investors.

Brazil, in particular, is vulnerable to such uneasiness. With fiscal and trade deficits that worry even those comforted by recent reforms and fairly solid reserves, the country is in the midst of a presidential campaign in which a leftist labour leader is closely challenging the reformist president. Even if the former loses – as he probably will – a tight race will make it tougher for the president to implement politically unpopular adjustments. Concern over Brazil would place heavy pressure on other Latin economies, notably Argentina.

In the US, despite the robustness of the economy during the past several years, there are worrying signs – from falling economic indicators to the recent decline on Wall Street. Economic problems elsewhere in the world are likely to cause unprecedented US trade deficits, prompting protectionist pressures that will only make matters worse for the US and all its trading partners.

But perhaps the most unsettling signs are anecdotal. When the nation's leading investment bankers at Goldman Sachs decide it is time to bring their firm public, you know you have hit a market high. Sell is the message, and it will reintroduce American investors to the laws of gravity.

If a slump came, its consequences would be great indeed. The "enlightened" policies that have driven worldwide reform for a decade would be in jeopardy. It is one thing to promote fiscal responsibility and free markets when growth is the norm. But in a recession, this so-called "Washington consensus" is a much tougher sell.

In Latin America, there would be new pressures on political leaders to take populist steps to ease social discomfort. Elections would become referendums on globalisation. Populists would argue that market reforms had merely benefited the rich and exacerbated income inequities.

Market downturns need not be all bad news. As Asian countries scramble for limited capital they will need to take steps to make themselves more attractive to the capital markets. This could finally promote the kind of fundamental restructuring Japanese and Korean politicians have resisted. It could also lead to greater global integration and reduced tension.

On the other hand, an international slump could lead to the kind of instability that breeds social frustration and regional conflict. In a world where weapons of mass destruction are proliferating so rapidly, that is no small matter.

The US will be buffeted by all these forces. Isolation and protection will be fuelled by the inflammatory rhetoric of trade hawks and other political opportunists. Should the US begin to withdraw into its shell, it would be harder for proponents of its economic and political values to convince others. US economic influence may once again be superseded by its military and political influence.

International policymakers in the US and elsewhere must rise to the challenge of this new situation. The most important way in which they can do this is to help hold the line on existing reforms by maintaining a strong International Monetary Fund. More generally, they can lead efforts to promote social equity without needlessly sacrificing market discipline. Only in this way can the US help consolidate the advances of the past decade, and maintain security and prosperity in the post-cold war era.

*The author is president of the Newmarket Company and a former official in the Clinton administration*



# LETTERS TO THE EDITOR

## Singular position of a far from vulnerable Brazil

*From Mr R. A. Barbosa.*

Sir, Your editorial "Latin contagion" (August 25), and the previous day's Lex comment, "Divided continent", suggest that Brazil reveals a lack of "strong fundamentals" in contrast with three other Latin American economies, and is the second most vulnerable in the region.

I think this is not a well-founded opinion and it misleads the reader.

The fundamentals of Brazil are right. The government is in command of the situation with a strong commitment to stability, fiscal transparency, sustained growth and openness - principles that have been kept steadily firm since 1994 and that, regardless of the international financial crisis, have been confirmed by successful privatisations and other growing business opportunities.

The alleged vulnerability of Brazil cannot be simply tested by its performance on the fiscal side, especially in the present conjuncture, in which the aggravation of the "deficit problem" results from the determination of the authorities to protect the real and thus contribute to the prevention of further international contagion. It has to be contested by comprehensive criteria. Far from being vulnerable like other economies in Latin America and other regions, including a few developed countries, Brazil has the singular position among emerging markets of having a set of positive elements: increasingly sustained inflow of foreign direct investment, large international reserves, diversified exports, marginal exposure to trade fluctuations, an impressive domestic market and a restructured financial sector, besides an overall political and economic stability.

Some of these features are correctly addressed in your editorial. But the distinction Lex suggests misses entirely the complexity of the issue.

Rubens Antonio Barbosa,
Brazilian ambassador,
Brazilian Embassy,
32 Green Street,
London W1Y 4AT

## World badly needs Japanese reflation

*From Mr Richard McCormack.*

Sir, After briefly surfacing in June, public discussion of capital controls in Japan has ceased. This may be a mistake.

The world badly needs a Japanese reflation. It does not need a new round of currency devaluations, which an increased printing of money by the Japanese Central Bank would otherwise trigger in the absence of capital controls in some form.

The precipitous decline in the value of the yen has been slowed down in recent days for two reasons: the Ministry of Finance has threatened a new round of currency interventions, and financial markets are waiting for the details of the policy package being prepared by the government of Japan to deal with the multiple pathologies in the Japanese economy.

If this package is a disappointment, no amount of talk of intervention will delay a new round of yen weakness beyond a week or two. And even actual intervention will hold only on a day-to-day basis, in the absence of action dealing with the fundamental problems causing the currency outflows.

A variable tax on capital outflows, sufficient to permit the Japanese government to manage its currency and keep the bulk of the newly printed money operating inside the Japanese economy to reflate it, needs to be a live policy option. And action on the Japanese economy's problems is urgently needed, not least because other financial markets are becoming nervous as the problems in one country spill over into others.

It is much easier to put a finger on a pinhole in a balloon than to have to reflate the balloon once it has collapsed.

Richard McCormack,
US undersecretary of state for economic affairs 1989-91,
1601 Walden Drive,
McLean, VA22101, US

## Bring existing law to bear on terrorists

*From Mr James R. Adams.*

Sir, The decision by Tony Blair, the UK prime minister, to recall parliament will certainly satisfy some people's desire for tough action against terrorists. However, my own desire is not for new legislation, but the application of that which already exists.

It is totally beyond my comprehension that, on the day following the Omagh atrocity, or, if not then, on the day when the terrorists admitted responsibility, they and their families (as suspected accessories before and/or after the event) were not arrested for questioning. We are told that the numbers are small (70-100), and that the individuals concerned are known to the population in general.

If these people were firmly but correctly questioned as to their movements over the previous month, it seems highly likely that some useful leads would emerge. I appreciate that the responsibility for this would lie principally with Bertie Ahern, the Irish prime minister, but I heard no reports of the British government trying to persuade him to that course of action.

James R. Adams,
1 Eddlewood Queens Road,
Weybridge, Surrey, UK

## Modernised ACC planning further expansion

*From Mr P. K. Sinor.*

Sir, With reference to your report "Consolidation firms up in Indian cement" (July 9), may I make the following points.

Between 1991 and 1998, ACC undertook a comprehensive business transformation exercise involving its principal businesses. This entailed investment of more than Rs18bn, primarily to achieve modernisation and capacity expansion, an upgrade of plant/process/technology; better efficiencies in power/fuel consumption and manpower usage; and higher standards in environment management and pollution control.

Today, more than 95 per cent of ACC's wet process units have been converted to modern dry/semi-dry plants. While achieving significant improvements in manpower productivity, as measured by man hours/tonne, ACC has adopted the most advanced TPM/TQM and benchmarking practices.

Further expansion plans envisage additional expenditure of Rs7.6bn to meet expected increased demand by 2001-02 – by which time ACC's installed cement capacity is projected at 15m tonnes a year. ACC has several product innovations to its credit and has leveraged its brand equity. It has acquired ISO 9002 quality certification for most of its works and ISO 14001 environmental management systems certification for two of its works. All these initiatives will substantially reduce costs.

P. K. Sinor,
The Associated Cement Companies,
Cement House,
121 Maharshi Karve Road,
Mumbai-400 020,
India

**Number One Southwark Bridge, London SE1 9HL**

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Friday August 28 1998

# Monetary dilemmas

Gathering today at Jackson Hole, courtesy of the Kansas Federal Reserve, the world's top monetary officials are meant to be discussing global income inequality. It will be no surprise if the chatter is of global crisis. But what should central bankers do?

At present, Japan and Europe seem unable – or unwilling – to do very much. Japan's financial crisis has crippled its banks and mesmerised its politicians and bureaucrats. The needed aggressive fiscal and monetary policy is unlikely to be forthcoming. Similarly, despite the collapse of Russia, European policymakers are unable to drag their attention away from the launch of the euro. Whether they will sustain the needed growth in demand is disturbingly uncertain.

All eyes will thus be on Alan Greenspan, chairman of the Federal Reserve. Last month he gave a clear warning on inflation. Now the balance of risks appears to be changing. The Dow Jones Industrial Average has fallen sharply since Mr Greenspan's testimony on July 21. Growth slowed in the second quarter from its unsustainable pace at the start of the year. Inflation remains nowhere to be seen, even though unemployment is at a level that used to be associated with rising prices and wage growth is picking up.

Last week the Federal Open Market Committee left interest rates unchanged. But the growing international uncertainty must now shift the bias from tightening towards a more neutral stance. The Fed's legal mandate is to maintain price stability and full employment in the US economy. But the FOMC should be increasingly concerned about the impact of the global crisis. Not only do international troubles feed into the economy. US interest rates have a major impact on rates in other countries and so on currencies, stock markets and world output.

The central question is whether the economy will slow enough to keep inflation in check, but not so much as to choke the motor of US demand. The Fed forecasts growth falling from 3-3½ per cent this year to 2-2½ per cent in 1999. That would probably do the trick, taking the heat out of the economy without further monetary intervention. Any change in interest rates seems some time off.

In considering whether and how to change, the Fed will have to examine both the prospects for the US economy and international developments. International risks may even begin to outweigh domestic concerns. Should the Japanese start pursuing a more expansionary monetary policy, thereby weakening the yen, it may make sense for the Fed to ease also, to limit the yen's depreciation. The Fed is the most important central bank in the world. At this increasingly critical juncture, it will have to act accordingly.

# Ultimate weapon

The resignation of Scott Ritter from the United Nations inspection team in Iraq suggests the west is approaching a dangerous impasse in its efforts to eradicate weapons of mass destruction. Mr Ritter, a former US Marine Corps captain who has led many missions into Iraq, accompanied his resignation with a scathing condemnation of the UN Security Council – and by implication of the US – for being "no longer willing or capable of implementing its own security law".

This followed President Saddam Hussein's latest move in his grisly game of hide and seek with the UN Special Commission (Unscom). On August 5 he once again refused to co-operate with the inspectors, on the spurious grounds that the whole operation needed to be re-organised. He calculates correctly that many in the west, as well as in the Arab world, are becoming increasingly alarmed by the plight of the Iraqi people resulting from UN sanctions – and his own manoeuvrings.

Now Mr Ritter's resignation hands him a double propaganda advantage. First, because the dictator had campaigned for his removal as a "spy" (but really, no doubt because he was effective and determined). More important Mr Ritter is showing up a genuine weakness when he accuses the UN of "abrogating its most basic responsibilities". His rhetoric goes too far. But it is clear that more must be done to enforce the inspection programme, and that western powers are divided as to what action should be taken.

Earlier this year the US threatened to destroy suspected Iraqi sites with missiles. But its recent attack on a pharmaceuticals factory in Sudan has done nothing to encourage support for such a policy. The US may have had plausible evidence that the Khartoum factory was making a component for chemical weapons. But it does not seem to have shared the data with its allies. Consequently, there are now widespread doubts that it hit the right target.

If the US hopes to make credible threats of a strike against Iraq in future, it must as a minimum take its allies much more into its confidence. But missile strikes can only be a very last resort, as there is little evidence they are very effective in destroying such weapons.

Analysis by French experts of claims that Iraq has armed weapons with lethal gas may harden world opinion next month before the next review of the sanctions regime. If so, very tough conditions might be imposed for a further limited lifting of sanctions. No one should be optimistic that Mr Saddam would comply, but the options short of a bloodbath are sadly limited.

# Malaysia's turn

With its low foreign debt, Malaysia seemed sheltered from the worst ravages of the Asian economic crisis. Yesterday brought news showing the opposite is true. Its economy contracted at a year-on-year rate of nearly 7 per cent in the second quarter, prompting fears that a Malaysian crisis could yet intensify the region's problems.

The authorities' response to the downturn thus far flies in the face of advice given by the International Monetary Fund to other countries in difficulty. Malaysia cut interest rates and added liquidity to the banking system.

Such an approach is easier when there is no pressing external payments problem. Malaysia can also claim, with some justification, that the IMF's initial prescriptions for Asia were too restrictive. But liquidity injections can be only part of the solution, and the easiest one to boot.

The risk of a loose money regime is that it will simply encourage capital to flow abroad in search of higher returns. If it is to lay the foundations of recovery, Malaysia must finally come to terms with the rot in its corporate and banking sectors, so that credit can again flow freely to sound companies. This means realising losses in the banking system and closing down companies which are bankrupt, however influential their owners.

Malaysia's approach to the downturn has smacked far too much of a desire to protect its elite, whatever the broader cost. From the early days it was slow to rein in credit expansion. Subsequently came a succession of ill-disguised and ill-conceived rescue operations for influential companies in difficulty.

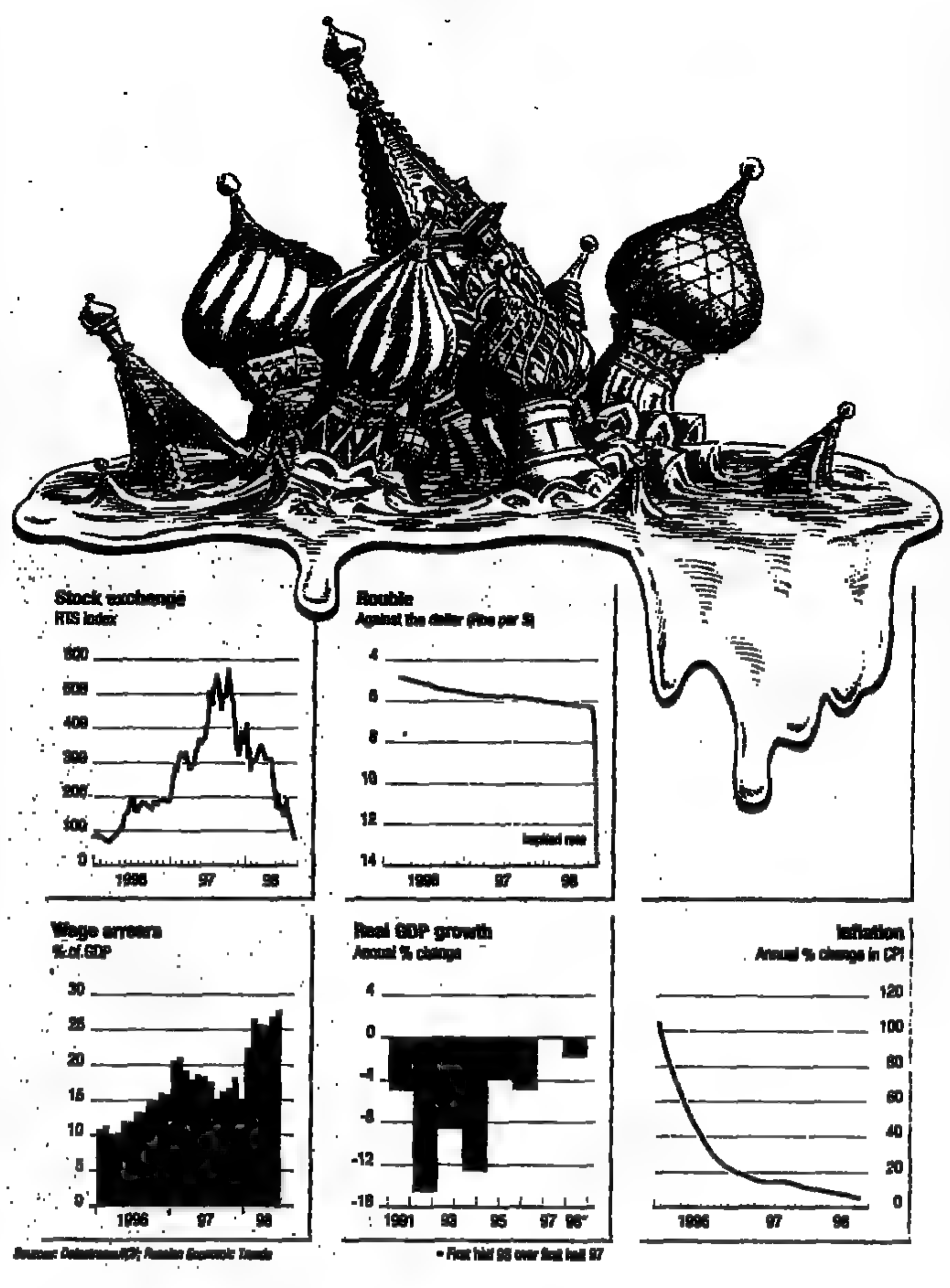
Mahathir Mohamad, Malaysia's prime minister, has reason to complain about the destructive effects of international speculators. Dr Mahathir also has some significant economic achievements to his credit. Still, a large part of the present problems are of his government's own making.

The danger now is that they will be handled with an eye to domestic politics rather than the real needs of the country. Already the recession has produced political strains, as is evident from the sidelining of Anwar Ibrahim, finance minister, and the removal of critical newspaper editors.

Whipping up popular sentiment against speculators or neighbouring Singapore is no real palliative. If Dr Mahathir wishes to be remembered as a statesman who recognised and fixed problems, he will bite the adjustment bullet. If he prefers to deny responsibility and cast blame elsewhere, he is more likely to end up slinking off in ignominy, having destroyed the vision he himself created for his country.

# Meltdown

**Martin Wolf, John Thornhill** and **Stephen Fidler** ask whether anything can be done to stop Russia sliding into the abyss




Source: Datastream/ICV; Russian Economic Trends

* First half 98 over first half 97

How bad is Russia's economic plight? How much worse might it get? What, if anything, can be done to alleviate the disaster? For many foreign lenders to Russia, the question is academic: they have already lost their shirts. But for Russians and others, these concerns are far from theoretical. They are of great and immediate importance.

Unfortunately, the answers are both simple and depressing: Russia's economic plight is bad, and will become worse. The government has defaulted. Trading in the rouble has been suspended for three days running. Prices are already beginning to rise. And a run on the banks has begun.

As if that were not enough, the pervasive stupidity and corruption at home, and the equally obvious complacency abroad, suggests that the chances of anything effective being done to halt the slide are minimal.

In the battle within Boris Yeltsin's government between genuine reformers and rapacious asset-strippers, the latter have won. It is this victory that will, inevitably, determine the shape of Russia's economic future.

Ultimately, Russia was unable to avoid default because its government had failed over many years either to pursue market-oriented reforms consistently or establish its fiscal credibility. The government of Sergei Kiriyenko, appointed so abruptly by Mr Yeltsin, was a last bold effort to achieve what had so long been missing. It needed five years. It was given five months.

The underlying crisis was in the public finances. The federal government's revenue was 11.5 per cent of gross domestic product in 1996, 12.0 per cent in 1997 and only 10.9 per cent in the first quarter of 1998. Yet its spending in these periods was far higher: 19.4 per cent, 19 per cent and 15.5 per cent of GDP respectively.

The problem was partly the result of the interest burden. This amounted to 5.7 per cent of GDP in 1996, 4.5 per cent in 1997 and 5 per cent in the first quarter of 1998, largely because of the very high interest rates on rouble borrowing imposed to drive down inflation. But the primary budget (ie, before interest payments) was in deficit, as well, to the tune of 2.2 per cent of GDP in 1996 and 2.5 per cent in 1997.

The government's options for financing its deficit were strictly limited. If it was not to print money, it had to roll over short-term debt and borrow more. In the first half of 1998 it did cut the primary deficit, to 0.4 per cent of GDP. But this was achieved by cutting spending, not raising revenue. The government also defaulted, albeit to its employees and suppliers by not paying wages.

The orthodox solution would have been tax reform and improved tax collection, creating an enduring primary budget surplus and cutting interest rates from the 50-150 per cent of recent months. But the fall of the Kiriyenko government marked the failure of that attempt. Instead, Russia has chosen (or been compelled) to devalue and default.

In principle, this might possibly help. Given that debt service is so large a part of government spending, default could lessen the government's public-finance burden and allow it to close the gap without an open-ended resort to the printing press. In practice, however, that is unlikely to happen because:

- the government is far from achieving a reliable primary balance;
- the financial oligarchy expects money to be printed to save its banks;
- the crisis of confidence in the rouble has been seriously exacerbated.

Consider each of the three factors. First, the political forces behind the new government – a malign mixture of populist politicians and plutocrats – are opposed to improved tax collection and tax reform. Once inflation takes off, lags in collection are almost certain to reduce real tax receipts. Meanwhile, output, stagnant in 1996-98, is likely to start declining again, as confidence deteriorates.

The only part of the recent policy reversals that could help the public finances is devaluation. While that is unlikely to have much of a beneficial effect on output, it could, again in theory, allow greater taxation of commodity exports, whose prices will jump in rouble terms. Whether it will, in practice, with Victor Chernomyrdin, as "prime minister for Gazprom", is another matter.

Meanwhile, the basis for any political deal is likely to be a promise to pay wage arrears. Thus, the great likelihood is that the attempts to achieve a primary surplus sufficient to cover the reduced interest burden will be abandoned. Indeed, this must be one of the main "benefits" to the opposition forces of disposing of poor Mr Kiriyenko.

Second, the plight of the banks adds to the likelihood that there will be greater use of the printing press. Many of Russia's banks had speculated in the market for the government's short-term rouble liabilities by borrowing dollars. They had also made large commitments in the forward market for foreign exchange. As a result, most are now bankrupt.

**The prognosis for Russia is dire. A miracle will now be needed to change it**

Many observers assume that the reason the Kiriyenko government was dismissed was that he refused to bail out these banks, most of which are of negligible economic significance.

So now, it is assumed they will be bailed out. And that is just what seems to be happening judging by the increased supply of central bank funds that, in turn, explains the collapse of the rouble over the past few days. As Credit Suisse First Boston remarks with pardonable asperity: "The current outcome is looking more and more as though the $10bn saved through the debt restructuring is simply being plundered by the banking system and fleeing the country."

That is hardly surprising. Plunder is what the new Russian commercial elite understands.

Third, this bail-out of the owners of the banks and the use of the funds to buy dollars is a symptom of a wider malaise. Over the 1994-97 period, argues CSFB, capital flight from the rouble has been some $66bn. Moreover, despite the apparent success of the authorities in stabilising prices, the country remains drastically undermonetised. Russia's ratio of broad currency to GDP is a third of that in emerging countries in Latin America and eastern Europe.

So what can be done now? Anders Aslund of the Carnegie Endowment in Washington, argues that the nearest parallel to the current political and economic chaos in Russia is that of Bulgaria more than two years ago. There, a financial panic and mistaken economic policies led to 600 per cent inflation, two consecutive annual falls in gross domestic product of 10 per cent a year, and an exchange rate that collapsed to 2 per cent of its pre-crisis value. In the end, elections were forced, a right-wing government elected with a significantly weakened communist representation.

In Russia, too, a few lonely voices are calling for stricter policies. Andrei Illarionov, director of the Institute of Economic Analysis, this week said it was the lack of liberal reforms, rather than a surfeit, that had caused Russia's economic problems.

"What we saw in the past seven years were various attempts to pursue a statist, protectionist, and isolationist economic policy. Such a policy could only lead to a profound economic crisis. The only option is to try, at least once, to pursue a genuinely liberal economic policy."

But for the most part, the overwhelming demand in Russia is for a more autarkic policy: printing money, reimposing currency controls, a stronger industrial policy, and limits on foreign competition. The idea is supported by everyone from the bankers, to the communist opposition, to Soviet-era factory managers and people on the streets whose wages have not been paid for months. It even has the backing of some reformers.

Mr Chernomyrdin has spoken of the need to concentrate on social expenditures and industrial policy; joined the chorus of criticism of the central bank, which is under political pressure for not printing enough money; and has emphasised the need to build a political coalition, relegating economic issues to second place.

One report said to be circulating among the Russian "oligarchs" calls for a new economic model: the New Mobilisation Economy. It suggests that a small core group, called the "administrative money aristocracy", should consolidate economic and political power and solve the country's budget problems by squeezing more money out of second-tier businesses. The "super-profits" that the big financial-industrial groups would make from devaluation would serve the state-power goals of the ruling core.

Hence, the demands of many Russians and the economic forces themselves are pushing the same way: the most probable outcome is that the Russians will print much more money, that more capital will flee the country and that the rouble will collapse further. This will then lead to declining output, reduced tax revenues, larger primary deficits and back again to greater monetary emission.

Having pulled the country – with great difficulty – back from one hyperinflation, a still feebler government must do the same again. Any decision by the IMF to give the Russians the next tranche in its current programme is unlikely to turn the tide. The additional money could disappear in hours.

If western assistance is to make any difference, it can only be if the new government makes proper use of the opportunity afforded by default by tightening the public finances sharply. This will leave Mr Chernomyrdin balanced uneasily between destabilising political pressures at home and western unwillingness to throw good money after bad. The prognosis for Russia is dire. A miracle is now needed to change it.

# OBSERVER

## General alert in Ankara

Turkey's military has kept the politicians on a short leash for decades. So when General Huseyin Kivrikoglu takes over Nato's second-largest army today, he'll have more than spit and polish on his mind.

The soft-spoken general, nicknamed "diplomat *pasha*" by fellow officers during his two stints with Nato, is aware that – between keeping an eye on Greece and fighting Kurdish seperatists – it's the chief of staff's job to keep the lid on . . Turkey's bubbling political Islam.

Islamists hope Kivrikoglu's arrival means they'll get a better deal from the National Security Council, the brass hats who dictate state policy. His predecessor, Ismail Hakki Karadayi, rumbled a column of tanks through an Islamist suburb of Ankara 18 months ago, declared political Islam Turkey's greatest threat, and booted Turkey's first Islamist-led government out of office.

But there is little reason to think that the newcomer – whom even schoolfriends remember for his military bearing – will go soft on Islamic fundamentalism. He has recently been busy purging units of officers with links to Islamic groups.

There is one way for Turkey's embattled Islamists to test the new man's mettle: to win April's general election, as polls suggest they might. Meanwhile Mesut Yilmaz's secularist government will hope that the "diplomat *pasha's*" shaven soldier's chin inspires more public confidence than the fundamentalist opposition's beards.

## Face the fax

A piece of White House notepaper has popped up on Observer's fax. It reads:

"Bill. Here are a few thoughts on your remarks to Boris Yeltsin when you arrive in Moscow for the summit starting Monday.

" 'Mr President. I'm not really sure I want to be here. But most Democrat candidates prefer me to stay away from the hustings for the November Congressional elections, and with Hillary changing the locks around the White House, I guess Moscow is as good a place as any.

'What worries me is that watching us shake hands on peak-time television tonight might remind the folks back home that I've backed you to the hilt in the past. We really did put all our eggs in one basket case and, now that your economy is collapsing around your ears, that might be seen as yet another error of judgment.

'But if I smile and stick to platitudes, the viewers might not connect this mess with US policy – they might even be grateful that I didn't pour more billions of their dollars into Russia.

'Mr President, I hope the same pictures on Russian television don't give your voters the impression that the US is likely to do anything to bail you out. You're on your own, pal. Please tell the communists I'd like to share a cigar with them now.' "

Observer suspects they'll tone it down on the plane.

## Heir receding

With three steps forward and two back, the German Christian Democrats' campaign to keep Helmut Kohl in office is beginning to resemble the curious procession in honour of St Willibrord practised for centuries in the small Luxembourg border town of Echternach.

After a thumping start to the week with a rousing rally in Dortmund, Kohl and his designated successor Wolfgang Schäuble are again at odds over how long the chancellor should lead Germany in the event of his surprising the pundits and winning next month's election.

Read yesterday's Die Zeit newspaper and Kohl says he is candidate "for this legislative period. Full stop. That's it. Good night". Turn to the rival weekly Die Woche and Schäuble says Kohl "has said he will stand for four years, but has also left quite a bit open as to what can happen in these four years".

The discrepancy may seem small. But the uncoordinated interviews have re-ignited discussion over Kohl's authority in his party and whether he is approaching his sell-by date – as well as providing an unexpected bonus for Gerhard Schröder, the Social Democrat challenger.

All a bit worrying for the government: but at least it takes their minds off Russia.

## Tea total

They've been drinking tea in China since the New World was one big prairie. But that hasn't stopped Uncle Sam trying to improve on the Real Thing. Coca-Cola is about to launch a range of ready-to-drink teas under its *Tian Yu Di* Heaven and Earth label.

Coca-Cola China general manager Mickie Leong says the company has been working for three years to perfect its brewing technique. How about just adding boiling water?

## Corpuscular calm

Panama is a relatively peaceful spot these days. The days of military dictatorship and political turbulence are over, and Sunday's referendum which could give President Ernesto Pérez Balladares the right to stand for re-election – is expected to pass off peacefully.

So maybe the electoral tribunal is just being careful, or maybe it knows something. Journalists covering the vote have been asked their blood group.

*The Financial Times*

## 50 years ago

**U.S. Prepares For Election**

Washington, August 27. Preparations are under way here for Tuesday, November 2, the day when nearly 60 million voters will elect the President of the United States. They will also elect a Vice-President, Governors of the 48 States, 435 Members of the House of Representatives and one-third of the Senate, in addition to local officials. In some states voters press levers opposite the names of the candidates they support, and the poll is automatically recorded. Elsewhere they will mark their X's on a long ballot sheet. Campaigning begins after the National Labour Day holiday on September 6.

**Air Traffic Expansion**

An all-round expansion of air traffic in May, as compared with May last year, is shown in statistics issued by the Ministry of Civil Aviation for scheduled services of the three airways corporations. Increases are recorded of 14.1 per cent in aircraft-miles flown, 26.6 per cent in passenger miles flown, and 53.1 per cent in freight-ton miles flown. Freighter services to Australia and South Africa again increased, with British Overseas Airways Corporation reporting a 68.2 per cent increase in ton-miles.

FINANCIAL TIMES
FRIDAY AUGUST 28 1998



## THE LEX COLUMN

# Banking botch

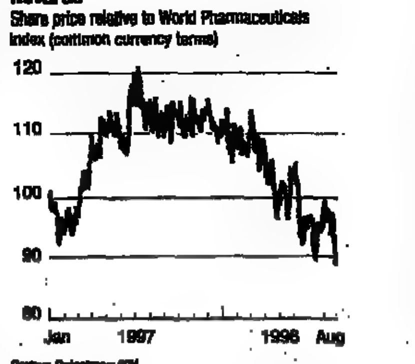
Amid Russia's broader crisis, the mishandling of the banking crisis stands out as particularly inept. The sensible policy would be to bankrupt the failed banks once household deposits had been fully secured. Banking failures in Russia would have relatively limited impact on the wider economy, given the low levels of financial intermediation. Allowing foreign creditors to seize the assets of failed banks might also open up the market for the likes of Deutsche Bank or Citibank. A clean sweep could actually restore confidence in banks among the population.

But the politically well-connected oligarchs, who control most banks, seem to have sunk any such plans. Indeed, since the crisis broke the banks have even been able to get their hands on some of Russia's precious hard currency reserves. The central bank's willingness to supply them with soft credits (designed to keep the banking system afloat) which were then converted into dollars was at the least incompetent.

Meanwhile, foreign creditors fear the country's 90-day moratorium, which bars Russian banks repaying their foreign debt, has simply bought the oligarchs time to siphon off their assets while leaving the liabilities behind. Banking mergers could put in place mechanisms to enable this. The legality of any such asset-stripping would be unclear, given the opacities of Russia's bankruptcy code. In most other countries, it would be considered theft.

### Novartis

**Novartis**
Share price relative to World Pharmaceuticals index (common currency terms)




Source: Datastream/ICV

Novartis was wise to pull a rabbit from its hat to counteract its disappointing interim results. Putting over-the-counter medicines and health foods into one division makes sense. So does the plan to sell the lower-margin businesses whose connection with health care is tenuous. That said, Novartis' decision about what to keep and what to sell is not obviously right. What does Ovaltine treat, for instance? The composition of the new division – and whether it should be kept at all – will no doubt be reappraised.

But that positive activity contrasts with a lack of progress in pharmaceuticals and a difficult market for the agribusiness. Some cynicism has set in as the group achieved its 14 per cent earnings per share increase mostly through cost-cutting and interest income, rather than sales growth. The group's biggest selling drugs have plateaued, but sales of new ones are not running fast enough to offset increased spending on research and development and marketing. Novartis is tackling the problem. It has, for instance, hired a new head of healthcare to tackle productivity and its position in the US.

Medium term, the pipeline looks more promising. But this still leaves a lacuna in the top line – hence the end of the post-merger honeymoon for the shares. With SFr8bn already in the bank, infill acquisitions would help. It is a pity Swiss law still makes share buybacks unattractive.

### US radio

More than 4,000 of the 11,000 US radio stations have changed hands in the past two years, transforming a cottage industry into a mainstream media sector. And the consolidation shows no signs of abating. Yesterday's takeover of Capstar Broadcasting by Chancellor Media creates the nation's largest radio group, with 460 stations and an enterprise value of $17bn. Meanwhile, television network CBS has decided to spin off 20 per cent of its radio division, Infinity Broadcasting, to give it an acquisition currency of its own.

Chancellor and Capstar fit together well. Both are young, entrepreneurial and loss-making. Both are backed by buy-out specialist Hicks, Muse, Tate & Furst, the industry's leading consolidator, which engineered this deal. Capstar is good at revitalising small, local stations with better music and high-profile disc jockeys. Chancellor has focused on larger markets and recently diversified into local TV stations and outdoor advertising. The management is promising $70m of cost savings and cash flow growth of 20-25 per cent a year by touting itself as a one-stop shop to advertisers.

This may look suspect when CBS is separating TV and radio. But CBS still believes in the synergies between the two. It is, after all, keeping 80 per cent of Infinity. This move is simply financial engineering: trying to get a better rating for the faster-growing radio side, after a 25 per cent slide in its shares since July.

### New Zealand

New Zealand's Maori name – Aotearoa, "land of the long white cloud" – has never seemed more appropriate. The clouds of economic gloom have descended. New Zealand's misfortune was to enter a downturn just as south-east Asia's woes began. A third of the country's exports usually go to Japan and Asia's wounded tigers. On top of that a big proportion of its exports to Australia are re-exported to Asia. Since April last year the New Zealand currency has lost 25 per cent of value against the US dollar, while the stock market has dropped by a fifth over the last 12 months.

Plunging commodity prices have also eroded receipts from New Zealand's main exports: agricultural and forestry products. The New Zealand Treasury – architect of the reforms that created perhaps the world's most open economy – admits the country faces "significant risks" and probable recession. The government may soon announce its first budget deficit for years and retains a tenuous grip on power.

New Zealand has been much admired for the boldness of its economic reforms. But the current crisis shows that no amount of micro-economic tinkering can disguise its unhealthy reliance on a narrow range of markets and products. Real boldness would involve turning New Zealand into the Switzerland of the South Pacific, exploiting its advantages of language and education to move up the value chain. Meanwhile, there seems little chance of the clouds lifting.

# Canadian rate rise fails to boost C$ or markets

By Scott Morrison in Toronto

Canada's central bank raised its overnight interest rate yesterday by a full one percentage point to 6 per cent in a desperate, but so far vain, attempt to boost confidence in the Canadian dollar.

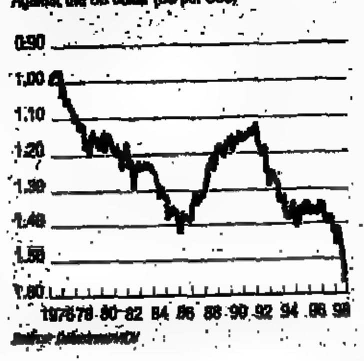
The dollar continued to weaken and the Toronto stock market plunged on concerns that higher interest rates would choke the economy.

The Bank of Canada, the central bank, intervened in currency markets to halt the fall in the currency but by midday it remained near Wednesday's record closing low of 63.4 US cents. The Toronto stock market key index was down more than 5 per cent and Canadian bonds failed to recover.

Canada's commercial banks swiftly raised their prime lending rate to 7.5 per cent.

The federal government and the central bank has been under growing public pressure to respond to the dollar's steep slide over the past five months. Most economists had opposed a rate increase for fear it would stifle an economy already shown signs of slowing. But the central bank yesterday said that the depreciation of the currency had resulted in a substantial easing of monetary conditions.

**Canadian dollar**
Against the US dollar (C$ per US$)




Source: Datastream/ICV

"While some of this easing has been warranted by economic developments, it is the the bank's view that it has become excessive," it said.

Some analysts suggested that the one-percentage-point increase would send a strong signal to investors and speculators that the bank was willing to support the currency. Others said the Bank of Canada would not be able to shield the dollar from external forces.

"Central banks would be wise to stay out of the path of the freight train – which is global markets panic," said Robert Blake, an economist at Citibank in New York.

Confidence in the Canadian dollar, which has been hit by the Asian crisis and low commodities prices since late last year, has fallen sharply in the wake of the Russian rouble devaluation. That has prompted concern that cheaper Russian commodities will displace Canadian goods on world markets.

Speculators have stepped up their attack on the Canadian currency in the past three months. They were emboldened by the central bank's clearly stated intervention policies and the belief it would not raise rates given Canada's slowing pace of economic growth – monthly indicators point to a slowdown from the first quarter's 3.6 per cent GDP rise. The currency has fallen about 10 per cent since the beginning of the year.

The Bank of Canada last raised rates 50 basis points to 5 per cent in January to defend the currency.

# Brunei's Prince Jefri seeking KPMG confidentiality order

By Jim Kelly in London

Prince Jefri, the disaffected younger brother of the Sultan of Brunei, yesterday sought a High Court injunction to prevent any risk of accountants KPMG allowing financial information about his private affairs to reach the Brunei authorities.

Prince Jefri, recently accused of financial mismanagement and stripped of control of the family's overseas assets, is a former client of KPMG UK which continues to act as a professional adviser to the Brunei Investment Agency.

Advisers to the prince believe there is a risk that confidential information may leak to the Brunei authorities at a time when there is a fierce family feud in the Sultanate over mismanagement of funds leading to the loss of billions of pounds.

Prince Jefri was removed last month as head of the Brunei Investment Agency – which looks after the family's overseas affairs valued at $60bn – and replaced by Haji Awang Abdul Aziz, a minister close to the royal palace.

Prince Jefri's huge Brunei-based construction company, Amedeo, has been closed down with unpaid bills of $800m and projects worth about $2.5bn under way. The Prince claims he is a victim of a plot by Moslem conservatives.

There is no suggestion that KPMG has passed on any information about their client or would do so. But the Prince is said to be worried about the effectiveness of so-called "Chinese walls" within the firm protecting client confidentiality. "Can the prince be satisfied that there is no risk of leaks?" asked one adviser in the case.

The case will be widely watched by the professional service firms – especially the global Big Five – as their rapid expansion and consolidation leads to potential conflicts of interest and tests internal data security systems. Prince Jefri's lawyers have issued a writ asking for an injunction against KPMG preventing the possibility that confidential information could be passed on to a third party.

The injunction would stop KPMG acting for any persons or bodies in any matter related to Prince Jefri, any matter adverse to his interests, or any matter in which there is a conflict of interest.

During a brief hearing at the High Court it was agreed that the two sides would work to submit evidence in the case and would appear before the court again next Wednesday in the hope of fixing a date for a full hearing, possibly lasting a day.

KPMG is likely to argue that it has had a long relationship with the Brunei Investment Agency and is confident its strict ethical rules prevent any leakage of confidential information between partners.

## CONTENTS



Government troops patrol Kinshasa, capital of the Democratic Republic of Congo, where the situation remains calm but tense. Page 5

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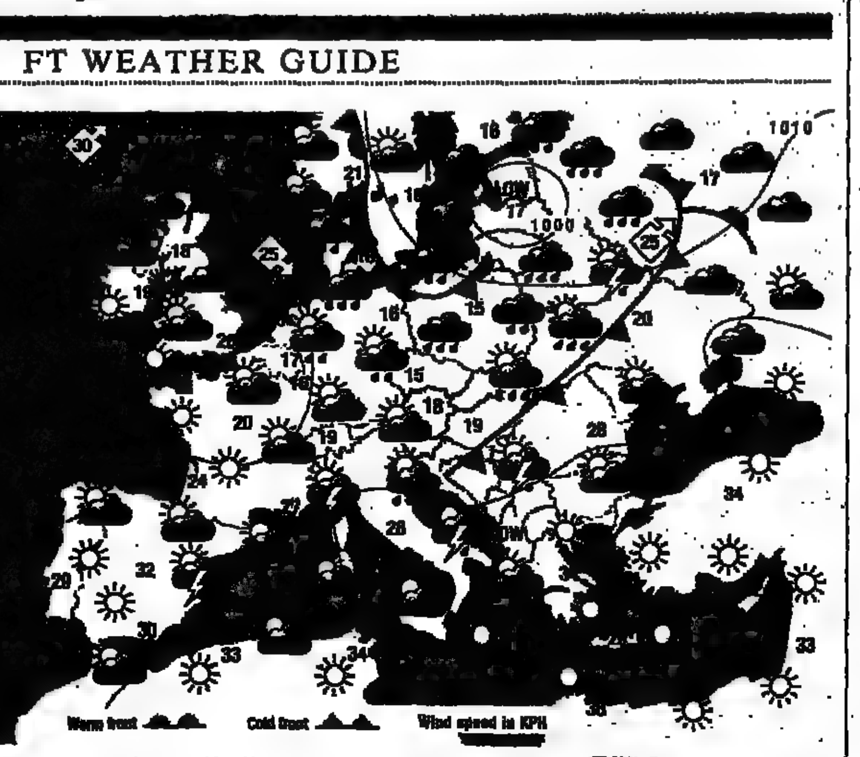
## FT WEATHER GUIDE

### Europe today

High pressure will keep most of France and the Alps dry with sunny spells, although it will be rather cool for August. The Low Countries will also be cool, with little sunshine and scattered showers. Low pressure dominates the Baltic Sea region with associated fronts bringing rain to northern Germany, Denmark, Finland and eastern Sweden. The eastern Mediterranean will be hot and sunny, but southern France, Italy and the Balkans will have thunderstorms. North-east Spain will have thundery showers but the rest of the Iberian peninsula will be hot and sunny.

### Five-day forecast

High pressure will spread over the next few days bringing a settled spell to Scandinavia and much of central and north-west Europe, but the far east will remain changeable. The Balkans will be thundery again tomorrow, but most of the Mediterranean will become dry and sunny.




Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

**TODAY'S TEMPERATURES**

| | | Maximum Celsius |
|---|---|---|
| Abu Dhabi | Fair | 39 |
| Accra | Fair | 26 |
| Algiers | Fair | 33 |
| Amsterdam | Shower | 16 |
| Athens | Sun | 34 |
| Atlanta | Fair | 37 |
| B. Aires | Shower | 17 |
| B.ham | Fair | 19 |
| Bangkok | Thunder | 34 |
| Barcelona | Fair | 28 |
| Beijing | Fair | 29 |
| Belfast | Cloudy | 18 |
| Belgrade | Thunder | 20 |
| Berlin | Shower | 16 |
| Bermuda | Cloudy | 31 |
| Bogota | Cloudy | 20 |
| Bombay | Fair | 33 |
| Brussels | Cloudy | 17 |
| Budapest | Fair | 19 |
| C.hagen | Rain | 18 |
| Cairo | Sun | 35 |
| Caracas | Thunder | 33 |
| Cardiff | Fair | 18 |
| Casablanca | Fair | 25 |
| Chicago | Thunder | 29 |
| Cologne | Fair | 17 |
| Dakar | Fair | 30 |
| Dallas | 35 | 95 |
| Delhi | Fair | 27 |
| Dubai | Sun | 41 |
| Dublin | Fair | 16 |
| Dubrovnik | Thunder | 27 |
| Edinburgh | Fair | 19 |
| Faro | Sun | 27 |
| Frankfurt | Fair | 17 |
| Geneva | Fair | 19 |
| Gibraltar | Sun | 31 |
| Glasgow | Cloudy | 18 |
| Hamburg | Shower | 17 |
| Helsinki | Rain | 16 |
| Hong Kong | Shower | 32 |
| Honolulu | Fair | 32 |
| Istanbul | Fair | 29 |
| Jakarta | Cloudy | 32 |
| Jersey | Fair | 19 |
| Johannesburg | Fair | 19 |
| Karachi | Cloudy | 38 |
| Kuwait | Sun | 48 |
| L. Angeles | Sun | 29 |
| Las Palmas | Sun | 29 |
| Lima | Cloudy | 19 |
| Lisbon | Fair | 29 |
| London | Fair | 20 |
| Lux.bourg | Shower | 16 |
| Lyon | Sun | 21 |
| Madeira | Sun | 27 |
| Madrid | Sun | 32 |
| Majorca | Thunder | 29 |
| Malta | Sun | 32 |
| Manchester | Cloudy | 17 |
| Manila | Fair | 33 |
| Melbourne | Fair | 18 |
| Mexico City | Fair | 27 |
| Miami | Fair | 33 |
| Milan | Fair | 24 |
| Montreal | Sun | 27 |
| Moscow | Rain | 17 |
| Munich | Fair | 16 |
| Nairobi | Fair | 23 |
| Naples | Thunder | 30 |
| Nassau | Cloudy | 33 |
| New York | Rain | 27 |
| Nice | Shower | 27 |
| Nicosia | Sun | 32 |
| Oslo | Fair | 21 |
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| Perth | Fair | 23 |
| Prague | Shower | 15 |
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| Rome | Thunder | 28 |
| S. Frsco | Sun | 22 |
| Seoul | Sun | 27 |
| Singapore | Thunder | 31 |
| Stockholm | Shower | 16 |
| Strasbourg | Fair | 19 |
| Sydney | Shower | 20 |
| Tangier | Fair | 25 |
| Tel Aviv | Sun | 39 |
| Tokyo | Rain | 29 |
| Toronto | Fair | 25 |
| Vancouver | Sun | 26 |
| Venice | Thunder | 24 |
| Vienna | Fair | 18 |
| Warsaw | Rain | 15 |
| Washington | Shower | 30 |
| Wellington | Shower | 11 |
| Winnipeg | Fair | 26 |
| Zurich | Fair | 17 |

FINANCIAL TIMES
# COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 FRIDAY AUGUST 28 1998 Week 35



## INSIDE

### US long bond yield falls to record low as investors seek safety

Haven-buying forced bond prices higher and sent some yields in the US, Britain and Germany to record lows as emerging market worries rippled across the globe. The benchmark US 30-year long bond yield reached a record low of 5.369 per cent, and in the UK the gilt future outperformed its German bund counterpart for the first time in weeks. Page 24

### Nordic markets feel Russian chill

A cold front is blowing across Scandinavian equity and currency markets, and it is coming straight from Russia. Nervousness caused by the economic crisis in Moscow has compounded jitters over inflationary pressures and the risk of a hard landing. Page 36

### Further restructuring at Novartis

Novartis, the Swiss pharmaceuticals company, announced further restructuring as it disappointed markets with sluggish profit growth in the first half. The group said it would merge its health foods and over-the-counter drugs businesses. Daniel Vasella (left), Novartis president, said the move would enable the group to reach a wider market with its self-medication drugs. Page 18

### Nissan faces challenge in US

Once known for its sporty models, Nissan, Japan's second largest carmaker, has lost its way over the past five years. Its North American operations have been at the core of its problems, and the company now faces the task of persuading buyers it is back on track. Page 20

### Poor jute crop on subcontinent

India and Bangladesh, the world's two largest producers of jute, are harvesting a poor crop this season following record production last year. Farmers have committed 30 per cent less land to the crop for 1998-99 because jute fetched poor prices last year. Page 26

### Silver deposit a boost for Bolivia

The discovery of a rich silver deposit is set to revitalise mining activity in one of Bolivia's poorest regions. The deposit, in the San Cristobal district 500km south of La Paz, is expected to produce 14m ounces of silver a year. Page 26

### Indian software groups in demand

The spectacular rise of India's software sector has sparked a hunt for hidden gems among the subsidiaries of the country's leading companies. Many big corporate groups have their own software service companies that began as in-house technical support teams. Now these offspring are worth more than their parents. Page 19

## COMPANIES IN THIS ISSUE



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## MARKET STATISTICS



# Corporate profits hit by Hong Kong recession

## Three of Asian territory's biggest companies report falls in earnings

By Louise Lucas in Hong Kong

The extent of Hong Kong's plunge into recession this year was highlighted yesterday when three of the territory's biggest companies reported steep falls in earnings.

Cheung Kong and Hutchison Whampoa, both part of tycoon Li Ka-shing's corporate empire, saw interim profits dented by hefty provisions made to reflect the tumbling stock and property markets.

Mr Li said the first six months of the year had proved more punishing for Hong Kong than most had anticipated: "Due to the credit crunch and rising cost of borrowing, most enterprises in Hong Kong have come under great financial pressure."

This was not strictly the case with the third group, Citic Pacific, once the darling red-chip – or mainland-backed stock – of international investors. Citic Pacific made no provisions and reduced its interest expenses, but still reported a 71 per cent plunge in earnings, from HK$6.14bn to HK$1.8bn (US$232.5m).

Provisions taken by Mr Li's companies, at HK$3.43bn for Cheung Kong and HK$3.45bn for Hutchison, were bigger than the market had expected. Bottom line earnings were at the lower end of expectations. Cheung Kong reported a 78 per cent drop in net earnings at the halfway stage, from HK$13.78bn in the first six months of 1997 to HK$3.02bn for the same period this year. Hutchison Whampoa, which had the benefit of an exceptional gain from the sale of a joint venture interest, posted a 45 per cent fall, from HK$7.85bn to HK$4.31bn.

The outlook did little to depress the three companies' share prices, however, which held up – bucking the trend of world equities – as the government intensified its buying binge aimed at banishing "speculators" from the market.

Mr Li, whose two main companies have enjoyed rallies on the back of government share buying, yesterday condoned the intervention. The government's actions have been criticised in other quarters for distorting market valuations and frustrating the currency board mechanism.

Despite the artificial rise on the stock market, the corporate gloom is expected to linger. The government will today give its official estimate of how fast the economy is shrinking.

"Corporate earnings are going to have a very difficult time this year," said Anil Daswani at Salomon Smith Barney in Hong Kong.

Results in detail, Page 19

Godfried van der Lugt, ING chairman, left, with finance director Cees Maas in Amsterdam yesterday Reuters

# ING vows to tough it out in world financial hot spots

By Jeremy Gray in Amsterdam

ING, the Netherlands-based financial services group, yesterday pledged its continued commitment to Russia, Asia and other troubled emerging markets as it unveiled first-half net profits up 74 per cent to Fl 3.841bn ($1.92bn).

Godfried van der Lugt, ING chairman, said investors would eventually return to the world's financial hot spots and ING wanted to be well placed when they did.

"We've made a lot of money in these markets over the years, and we're not going to leave any countries where we're present," he said.

Nonetheless, ING Barings, its international securities and investment bank division, has been scaling down its volume business in certain countries to cope with reduced loan demand. Cees Maas, finance director, stressed that ING had a limited exposure to Russia, amounting to $850m in chiefly short-term trade financing to what he described as "good" banks. INGs long-term loans amounted to only $50m.

He said he was optimistic about future investment prospects in Russia, but that solutions must come from within. "What's needed is a structural change in the economy" Mr Maas added. "International institutions such as the IMF and the World Bank cannot help much – Russia will have to do it on its own accord."

However, ING raised its risk provisions by Fl 590m to cover potential losses in Asia, and reallocated Fl 270m from its existing reserves for possible problems in South America and Russia, where its exposure is limited.

"We don't expect to make an additional provision in the second half of the year," said Mr van der Lugt. During the first half, bumper earnings from takeovers and one-off gains added more than Fl 1.486bn to net profits.

The group sold stakes in Libertel, a Dutch mobile phone network, and Kredietbank Belgium, netting Fl 445m and Fl 377m respectively.

But a takeover in Belgium turned in the best receipts. Banque Bruxelles Lambert, acquired through a Fl 9bn bid last November, contributed Fl 535m. The US life assurer Equitable of Iowa, bought in July 1997, added Fl 90m while US investment bank Furman Selz, acquired last August, accounted for Fl 39m. A previously-announced accounting change added Fl 151m to the bottom line.

ING said it was sticking to its forecast for a 30-35 per cent increase in 1998 earnings per share, providing the Asia crisis does not deepen or spread to other parts of the world.

# R-R stocks fall on fear of aviation downturn

By Jonathan Ford in London

Shares in Rolls-Royce came under pressure yesterday as analysts shrugged off an upbeat interim results statement from the aero engine maker, instead raising concerns about the outlook for aircraft purchases and the group's deteriorating margins and cash flows.

Although Rolls-Royce hit its target of achieving double digit earnings growth in the first half, with earnings per share rising 10 per cent to 7.17p, the shares tumbled more than 8 per cent to 203p.

Rolls-Royce's order book increased by 28 per cent, year on year, to a record £10bn ($16.5bn) with a further £2bn of orders announced but not contracted. Despite tough competition from US rivals General Electric and Pratt & Whitney, it claims to have won about 35 per cent of all commercial engine deliveries in the first six months of the year.

On Tuesday, a Rolls-Royce-led consortium was chosen to supply engines for up to 188 Airbus short haul aircraft ordered by British Airways.

John Rose, Rolls-Royce chief executive, said the outlook for commercial aircraft engine production was still good despite the Asian turmoil, thanks to strong sales in North America and Europe. "Asia accounts for only 17 per cent of our order book," he added.

However, analysts voiced concerns that the current aircraft purchasing cycle was close to its peak, putting the group's earnings target at risk.

Pre-tax profits increased by 16 per cent to £136m on sales 7 per cent higher at £2.1bn. Profits were flattered by a reduction in net development expenditure funded by Rolls-Royce.

Rolls-Royce said the reduction occurred because partners on collaborative projects were shouldering more development costs. Gross expenditure, including their contribution, rose by 20 per cent to £321m.

Trading margins declined from 11.6 per cent to 10.4 per cent, as revenues from commercial aircraft engine deliveries rose by 25 per cent.

Mr Rose said the group sacrificed margin when it made sales of equipment but these were compensated by an "annuity" from sales of spare parts to customers.

Comment, Page 22

# 3M to close plants and cut 4,500 jobs

By Nikki Tait in Minneapolis

3M, the US manufacturing conglomerate group, has announced a cost-cutting programme, dropping products, closing plants, and shedding about 4,500 jobs by the end of next year. It will result in a pre-tax charge of up to $800m.

The restructuring is designed to offset the effects of the Asian crisis and increasingly difficult international markets, and some weaknesses in its US markets.

The company, which is sometimes taken as a barometer for the US manufacturing economy because of its wide range of products, also said it plans to step up its hunt for acquisitions. It indicated that it was interested in areas such as healthcare products and electronic connectors and would be looking at smaller, bolt-on deals, as well as "fair-sized" transactions.

At the company's day-long briefing session with analysts, held every two years, Livio DeSimone, chairman, said the Asian crisis was the most serious difficulty facing the company and would cut growth by about four percentage points this year.

But he also pointed to a slowdown in some business sectors in the US, and adverse trends in some other international markets. The company, whose products include scotch-tape and medical equipment, made more than half its $15bn sales outside the US last year, including about $2.6bn in Asia.

Some job cuts were foreshadowed when 3M released its second-quarter figures earlier this year.

But Wall Street analysts have been concerned about the slow pace of moves by 3M to cut its cost base. Analysts seemed unimpressed by the package and were concerned that the group may need to do more if world conditions deteriorated beyond expectations.

Yesterday Giulio Agostini, finance director, conceded that "over the past nine months we have not reacted sufficiently".

The company said that about 1,300 management and headquarters jobs would be shed by the end of 1999, providing savings that would add about 0.4 percentage points to operating margins. Product rationalisation would mean losing about $350m of sales, and sale or closure of businesses with assets of about $150m.

Withdrawal from these businesses would result in 1,200 more job losses, but would lift operating profits by a further 0.4 percentage points, and be completed by the end of 1999.

3M will also look to consolidate, or close, some factories in the US and overseas, eliminating another 2,000 jobs. Mr Agostini indicated that attrition would account for many job losses.

3M said the programme should allow it to push operating profit margin to more than 20 per cent by 2001, and again meet its target of improving labour productivity by 8 per cent a year. In 1998, the rate of productivity improvement is expected to be just 4 per cent.

# Rival radio groups merge as CBS resurrects Infinity

By Christopher Parkes in Los Angeles

A move by CBS to spin off its radio business and restore its faded stock market appeal was promptly trumped yesterday by a merger between its main rivals, which will create a business worth $4bn at yesterday's stock prices.

The planned link between Chancellor Media and Capstar Broadcasting was revealed as CBS announced plans to hive off its radio stations and outdoor advertising business into a separate company. The merger will bump the troubled national broadcaster from first to second place in the race to dominate the US airwaves.

On completion, Chancellor will have 463 radio stations, compared with CBS's 155, and combined revenues of about $2.5bn, against $1.5bn.

The transactions, which mark the biggest shift in the US radio industry since Mel Karmazin sold his Infinity Broadcasting stations to CBS for $4bn two years ago, will increase the pressure on smaller groups to sell or consolidate.

The merger, engineered by Dallas investment firm Hicks, Muse, Tate & Furst, which controls both the prospective partners, may attract further scrutiny from federal regulators whose attention recently dissuaded Chancellor from buying four regional stations.

Meanwhile, CBS also announced cost-cutting measures that would reduce the group's third-quarter profits by up to $70m.

Mr Karmazin, now CBS president, said the radio business would be named Infinity Broadcasting – resurrecting the name of his original radio business – and an initial public offering comprising 20 per cent of the stock would be completed by the end of the year.

CBS stock rose about 40 cents in a falling market early yesterday to hover around $28, signalling enthusiasm among investors puzzled over the group's future and its strategy for returning its core television broadcasting arm to profit.

The TV network, which early this year started a bidding war for sports broadcasting rights when it paid a record $4bn to show American football, lost more than $100m last year.

Although radio's contribution helped increase group profits four-fold to $4m in the second quarter of this year, the result was well below Wall Street estimates.

Since the latest figures were announced last month, the CBS stock price has fallen from about $85, despite rumours of possible takeover bids.

Shares in Chancellor and Capstar fell on the merger news, despite bullish forecasts from company executives who estimated the new group's enterprise value – including $6.5bn of debt – at $17bn.

They said revenues would increase 10 per cent on a pro forma basis next year and predicted cashflow growth of 18 per cent as economies of scale and other synergies reduced annual costs by an estimated $70m a year.

On completion of the merger, Hicks, Muse, which now holds 15 per cent of Chancellor and 59 per cent of Capstar, will own 25 per cent of the new company.

Each Chancellor share will be exchanged for one share in the new company, while Capstar stockholders will exchange their shares for 0.48 units in Chancellor.

Tom Hicks, the leader of the investment firm which built both radio groups in less than 10 years, will be group chairman, and Jeffrey Marcus, Chancellor chief executive officer, will keep his position.

Hicks, Muse has engineered more than 230 transactions worth more than $30bn since it was founded in 1989, and it has led the charge to consolidation in the radio industry.

Radio is the fastest-growing advertising medium. After stagnating on a slow downtrend since 1975, its share of promotional budgets has lately increased towards 8 per cent.

**CONSTRUCTION** OPERATING PROFITS JUMP FROM SKr974m TO SKr2.72bn FOLLOWING AN UPTURN IN BUILDING PROJECTS

# Skanska interim profits more than double

**By Tim Burt in Stockholm**

Skanska, one of Europe's largest construction groups, yesterday announced a sharp increase in first-half profits following an upturn in residential and commercial building projects.

The Swedish company, which is midway through a heavy restructuring, saw operating profits jump from SKr974m to SKr2.72bn ($326.6m) in the first six months of the year.

The profits, on sales up from SKr24.1bn to SKr29bn, reflected demand for construction and project development activities. Order bookings also rose from SKr32.1bn to SKr42.8bn.

Claes Björk, chief executive, said: "The internationalisation of the Skanska group is continuing to increase, mainly due to good order booking in the US, Finland, Russia and Denmark."

The company – which owns 7.6 per cent of Costain, the UK construction company – has recently won contracts for four new Ikea stores in the Czech Republic, Poland and Hungary. In St Petersburg, it has begun a new project at the city's central station, while in the US it has seen order intake rise by 60 per cent – mainly because of contracts won for the light rail link to New York's Kennedy airport.

That helped offset weakness in the German construction market, which adversely affected kitchen and roofing operations.

At the operating level, moreover, the figures were flattered by one-off items totalling SKr1.09bn after the disposal of forest operations and timberland assets.

At the pre-tax level, profits fell from SKr10.1bn to SKr3.18bn – although the 1997 result was enhanced by SKr9.12bn of capital gains on share disposals.

"Disregarding capital gains and other items affecting comparability, I anticipate higher full-year 1998 earnings in our business operations," said Mr Björk.

Of the group's business areas, Skanska saw the sharpest growth in project development and real estate, where operating profits jumped from SKr285m to SKr843m amid buoyant demand for residential and commercial property.

Profits in the US division, by comparison, rose from SKr90m to SKr134m and from SKr141m to SKr195m in Sweden.

Elsewhere in Europe, profits rose more modestly from SKr80m to SKr99m. But Skanska said it could soon increase its exposure to the Finnish market by concluding the purchase of the construction arm of Polar Group, the Finnish holding company – creating the country's second largest building company.

Earnings per share, after accounting for one-off gains in 1997, fell from SKr57.90 to SKr16.30. Skanska's most commonly trade B shares fell SKr14 to SKr330, along with the sharp fall in the Stockholm market.

# Slow growth forces Novartis to restructure

**By Jenny Luesby**

Novartis, the pharmaceuticals company formed through the merger of drugs groups Ciba and Sandoz, yesterday announced further restructuring as it disappointed the markets with sluggish profit growth in the first half.

The group reported a 2 per cent increase in operating profits, to SFr4.1bn, ($2.7bn) on sales up 1 per cent at SFr16.77bn. However, its net income rose 14 per cent, to SFr3.55bn, because of large one-off gains from foreign currency, share and bond investments.

Profit growth was held back by expansion of the sales force, increased spending on research and development and on four product launches. Earnings were also dented by a 5 per cent drop in operating income in the second largest division, agribusiness. These were offset by a SFr328m saving in administrative costs following the 1996 merger. The merger has so far cut the group's workforce by 7,900.

Another 380 job cuts and savings of SFr70m were expected from the restructuring announced yesterday. Novartis said it would merge its healthfood and over-the-counter drugs businesses.

It also announced plans to divest six non-core food brands and a distribution business, with annual sales of SFr1.3bn.

Daniel Vasella, president, said the reshaping would not usher in "a total turnround" of the group's over-the-counter business, which contracted in the first half. However, it would produce a wider market with its self-medication drugs.

"The nutrition business is in places where the over-the-counter business is not," he said. The move is the first step by Novartis towards streamlining its products around a single strategic theme. From now on, the group's consumer businesses would all have a perceived or proven health benefit, said Mr Vasella.

Daniel Vasella: streamlining around single theme — Ashley Ashwood

The company was also keen to develop its range of functional foods, including food to prevent allergies, lower cholesterol and increase immunity.

Analysts welcomed the sell-off, which they said would free up capital from several businesses with low profit margins.

The group's shares closed down SFr66 yesterday, at SFr2,341. However, the Swiss market fell 5.1 per cent.

Lex, Page 18

# Santander still 'on track' to meet forecasts

**By David White in Madrid**

Spain's Banco Santander, which has lost 29 per cent of its stock market value in just over a week because of worries about its involvement in Latin America, yesterday sought to calm investors fears by reaffirming expectations of strong earnings growth.

It said it was still "on track" to meet 1998 profit targets and longer-term financial objectives.

Last month it said it would raise earnings per share by more than 22 per cent this year, from a medium-term term target of 20 per cent.

Defending its geographical and business diversification, Santander said its investment drive into Latin American banking was based on "prudent policies", with strict risk control and strong provisions.

Its ratio of non-performing loans in Latin America was below average at 3.76 per cent, and its cover rate stood at 112 per cent.

It had full foreign exchange risk cover on the capital invested, and had already this year written off Pta222bn ($1.45bn) of goodwill arising from its takeovers in the region, leaving Pta59bn of goodwill still pending.

At the same time, it said its exposure to economic troubles in Asia and Russia was "extremely low".

The bank's shares – which along with those of rival Banco Bilbao Vizcaya and the Telefónica group have borne the brunt of recent Latin America-related falls in Madrid – slipped a further 8.6 per cent yesterday to Pta2,770. This followed a 22.5 per cent fall over the previous week.

The recent falls came after a 54 per cent increase in the first six months of the year.

# SAP share price hit by FoxMeyer allegations

**By Graham Bowley in Frankfurt**

SAP yesterday rejected as "without any legal and factual foundation" a US company's claim that the failure of computer software installed by the fast-growing German group contributed to its collapse.

FoxMeyer, the US drugs distributor which went into bankruptcy in 1996, sued this week for more than $500m compensation, claiming that SAP's business software was a "significant cause" of its downfall.

FoxMeyer representatives filed a similar lawsuit this week against Deloitte & Touche, its former accountants, for allegedly agreeing to severe refinancing terms which crippled the company.

This follows an earlier claim against Andersen Consulting, the firm that installed the SAP software for FoxMeyer.

Both Deloitte & Touche and Andersen Consulting said yesterday they rejected the legal claims and vowed to fight the case.

The action yesterday triggered a 5.4 per cent fall in SAP shares, to DM965, against a general 4.5 per cent market decline.

The company, which has grown to be one of Germany's biggest groups and the world's fourth largest software group, had net profit of DM924m ($511m) last year on sales of DM6bn. This month it listed its shares on the New York Stock Exchange.

It said: "SAP makes clear that this claim is without any legal and factual foundation and it bears no relation to the facts. SAP followed all of its contractual duties and will defend itself forcefully against the charges."

Representatives for FoxMeyer allege that SAP's R/3 software could not cope with the high volume of orders it was receiving during a period of fast expansion.

The drugs distributor alleges that SAP misrepresented the capacity of its software and that it was used as a guinea pig for the new products.

SAP was dragged into a separate legal wrangle last year when it was targeted in a high-profile insider trading investigation by German prosecutors.

The investigation was later scaled down, but the bad publicity shook the company and is believed to be a chief reason why Dietmar Hopp, one of the founders, chose to step down as chief executive.



# Hagemeyer climbs 33% after bolt-ons

**By Jeremy Gray in Amsterdam**

Bolt-on acquisitions at Hagemeyer, the acquisitive Dutch trading company, drove a 33 per cent climb in first-half net profit. However, the company warned yesterday that growth would not be as strong for the whole year.

Net profit was Fl 187.8m ($93m). Most divisions lifted their profit margins, although the group's operating margin slipped to 4.9 per cent from 5 per cent because of last year's acquisition of Tech Pacific, the technical products group. However, operating profit surged 48.2 per cent to Fl 340m.

Andrew Land, chairman, said that the company was determined to expand in the US to reduce its reliance on the European market, but that takeover talks had not produced a result. "It's like asking a man if he wants to marry, and the man says 'yes', but he doesn't yet know the bride," said Mr Land in an interview with the Financial Times.

Sales were significantly ahead of last year, up 51.8 per cent to Fl 7bn, which mainly reflected the purchase of Tech Pacific and Asea Skandia. The technical products division was boosted by the acquisitions of Elapp and Pro Elektro, German electronics retailers, and purchases in the UK, Finland and the Netherlands. These acquisitions cost Fl 40m–Fl 50m, Mr Land said.

In Asia, which accounts for just 1.8 per cent of group turnover, the economic crisis was expected to cost Hagemeyer only Fl 10m–Fl 15m in net profit this year. Losses from some countries were more than cancelled out, Mr Land said. "We export Fl 1.5bn from China to Europe and America, which more than offsets the problem in Asia as a whole," he said.

The chairman said this year's rise in earnings should be around 15 per cent, in line with the company's forecast in February.

Hagemeyer's shares closed up 70 cents at Fl 70.20 on the Amsterdam stock exchange.

## NEWS DIGEST

### FRANCE

## Bouygues brothers advance in battle against Bolloré

France's Bouygues brothers yesterday won a small victory in their battle of attrition with Vincent Bolloré, the Breton businessman, for control of the strategy of Bouygues, the construction, TV and telecommunications group. The Conseil des Marchés Financiers, the financial market regulator, acknowledged that there was "a doubt" over the existence of a concert party agreement between the brothers and Mr Bolloré, who has built up an 11 per cent stake in the group. It did not make a formal ruling, as requested by the brothers, however, saying it would pronounce "according to the evolution of the dossier and, in particular, the behaviour of the parties".

Mr Bolloré has incensed the brothers since the signing of the concert party last December by refusing to pass the group's 1997 accounts and urging them to sell Bouygues' telecoms operations. The matter looks set to go before the Paris commercial court, where actions have been lodged by both sides. Bouygues shares yesterday dropped FFr7 to FFr1,130, much less than the 4.28 per cent decline of the benchmark CAC 40 index. Bolloré Technologies was down FFr20 at FFr1,055. **David Owen, Paris**

### BANKING

## Nordic groups forge alliance

FöreningsSparbanken, one of Sweden's top lenders, yesterday announced a strategic alliance with SpareBank 1, the Norwegian savings bank, in its first significant expansion into Norway. Under the terms of the deal, the Swedish bank has agreed to pay NKr720m ($90m) for a 25 per cent stake in SpareBank 1 Gruppen, the holding company controlling four regional and 16 local Norwegian savings institutions.

Nils-Fredrik Nyblaes, deputy chief executive at FöreningsSparbanken, said the move would allow it to distribute its fund management, life insurance and bank card products through the Norwegian lender's 380 offices. He also signalled further alliances in the Nordic region rather than outright acquisitions, saying they offered "greater opportunities with less risk". FöreningsSparbanken already has a similar alliance in Finland with Aktia, the Finnish savings bank, and a co-operation deal on product distribution with about 100 small Swedish savings institutions. SpareBank 1 has 1.2m private account holders and about 100,000 company clients. Its balance sheet assets at June 30 this year were NKr133bn. **Tim Burt, Stockholm**

## WestLB rises to DM660m

Westdeutsche Landesbank, Germany's biggest public sector bank, said first-half operating profits after risk provisions rose 5.2 per cent to DM660m ($365m). It said it had "taken account of all discernible risks, including current developments in Russia". Risk provisions were 9 per cent higher at DM423m. Friedel Neuber, chairman, said the results formed a solid basis for the full year. "We have achieved encouraging growth in net interest and commission income. Despite the difficult environment, we also expect to show a satisfactory performance for the year as a whole."

WestLB's net interest income was 9 per cent higher at DM2.24bn, helped by growth in lending business and the expansion of global treasury operations. Net commission income increased 26 per cent to DM529m, with equities and securities service business (such as settlement) performing well. Trading income fell 24 per cent to DM215m; the bank noted, however, that some trading profits were included in net interest and commission income. Cost were 11 per cent higher at DM1.99bn, mainly because of spending on computer systems and preparations for the euro and 2000. **Andrew Fisher, Frankfurt**

### TELECOMMUNICATIONS

## Belgacom advances 7%

Belgacom, the Belgian telecommunications group, yesterday announced a 7 per cent increase in first-half net profits to BFr7.9bn ($212m), and said it expected an even stronger second-half performance. The former state-owned monopoly, now 49 per cent owned by a consortium headed by Ameritech of the US, said turnover jumped 11.9 per cet to BFr83.2bn, driven partly by continued growth in mobile phone services.

However, this was offset by a 12.4 per cent increase in operating expenses to BFr71.7bn, including the costs of the group's "People, Teams and Skills" restructuring programme under which nearly a quarter of the workforce is being retrained, and a quarter more set to take early retirement. Belgacom said it had 23,400 employees at the end of the period, down from 25,900 the year before, although it had recruited more than 1,000 new employees during the first half. **Neil Buckley, Brussels**

## Allgon chief to step down

Allgon, the Swedish telecommunications group, said yesterday Torsten Koersell, chief executive, will step down when a successor has been found. "Torsten Koersell and the board have come to the common view that the continued development of Allgon will require a higher degree of specialised knowledge in the telephone branch and that the time is now right to prepare for the changing of chief executive," the company said. **AFX News, Stockholm**

### CEMENT MILLING

## FFE hurt by Asia crisis

F. L. Smidth-Fuller Engineering, one of the world's leading suppliers of services and equipment for the cement milling industry, yesterday blamed the Asian crisis for a heavy fall in first-half sales and pre-tax profits. Sales at FFE, which is part of the Danish FLS Industries group, were down DKr950m to DKr3.03bn ($440m); pre-tax profits fell from DKr172m to DKr85m. Problems at FFE were the main factor behind a fall in pre-tax profits at FLS from DKr606m last year to DKr349m this time, on turnover down from DKr10.5bn to DKr10.1bn. **Hilary Barnes, Copenhagen**

# Pan-Europe venture fund float

**By Katharine Campbell**

A novel pan-European venture capital fund investing in growing technology companies will list on the Brussels stock exchange next month.

Quest for Growth, which underscores the surge of interest in mainland Europe in growing companies, was set up by Capricorn Venture Partners, a Belgian venture capitalist, and investment banking boutique Quartz Capital Partners. Capitalised at BFr708m ($19m) it aims to raise BFr2bn-BFr4bn on flotation.

The vehicle is the first so-called "privak", an entity modelled by the Belgian government on the UK's venture capital trust legislation – with more liberal investment criteria. The fund itself pays no tax and distributes 80 per cent of realised profits to investors every year in the form of a dividend. Belgian private investors pay no capital gains tax.

Jos Peeters, managing director of Capricorn and a director of Quest for Growth, coined the term "privak" as a member of a working party at the ministry of finance which drafted the legislation. There he met Johny Neven, then a director of the Brussels stock exchange, who quit in May to run the fund.

While Capricorn concentrates on what Mr Peeters calls "hard-nosed venture capital" – funding very young companies – Quest for Growth will focus on businesses closer to flotation and those already quoted on the bourses specialising in growth stocks such as Easdaq, France's Nouveau Marché and the Neuer Markt in Germany.

The fund will be well-placed to capitalise on investors' growing appetite after the introduction of the euro for sector rather than country specialisation, according to Mr Peeters, who is also a vice-chairman of Easdaq.

"With all this [stock market] uncertainty, the name of the game is going to be selection," said Mr Neven.

There are plans for subsequent listings and fund-raising exercises on other regional stock markets, probably starting with Germany.

The prospectus will be issued on September 7 and Artesia Bank is lead manager.

**HONG KONG** FLAGSHIP OF LI KA-SHING CORPORATE EMPIRE PLUNGES 78% AT HALFWAY ● NET PROFITS SLIDE 71% AT CITIC PACIFIC

# Provisions take heavy toll on Cheung Kong

By Louisa Lucas in Hong Kong

Heavy provisions at Cheung Kong, the flagship of Li Ka-shing's corporate empire, resulted in a 78 per cent plunge in interim net earnings, from HK$13.78bn in the first half of 1997 to HK$3.02bn (US$390m).

The HK$3.43bn provisions included a second charge on a property already provided for at the end of last year, reflecting the continuing freefall in the property market. Prices have dropped 45 per cent since the peak last summer.

Provisions were bigger than the market had expected, prompting some analysts to revise full-year forecasts for Cheung Kong and their provision levels for others in the property sector. Mr Li said he saw only a limited possibility of further falls in property prices. Many analysts disagree, expecting another drop of 30-40 per cent.

A restructuring of Mr Li's empire meant Cheung Kong reaped a HK$7.73bn exceptional gain in the first half of 1997. Stripping this out, the drop in earnings was less than 50 per cent.

Franklin Lam, property analyst at Warburg Dillon Read, said the operating result broadly met expectations but that the 28 per cent fall in the dividend payout was a "negative surprise". On an annualised basis, the cut will save the group about HK$1bn this year, he said. The interim dividend is 28 cents, compared with 39 cents at the halfway stage last year.

At Hutchison, the property-to-ports conglomerate controlled by Cheung Kong, earnings were again ravaged by provisions – HK$2.45bn on two property projects and HK$1bn on its securities portfolio. However, it also had HK$3.33bn in exceptional profits from the sale of a portion of its Procter & Gamble joint venture in China.

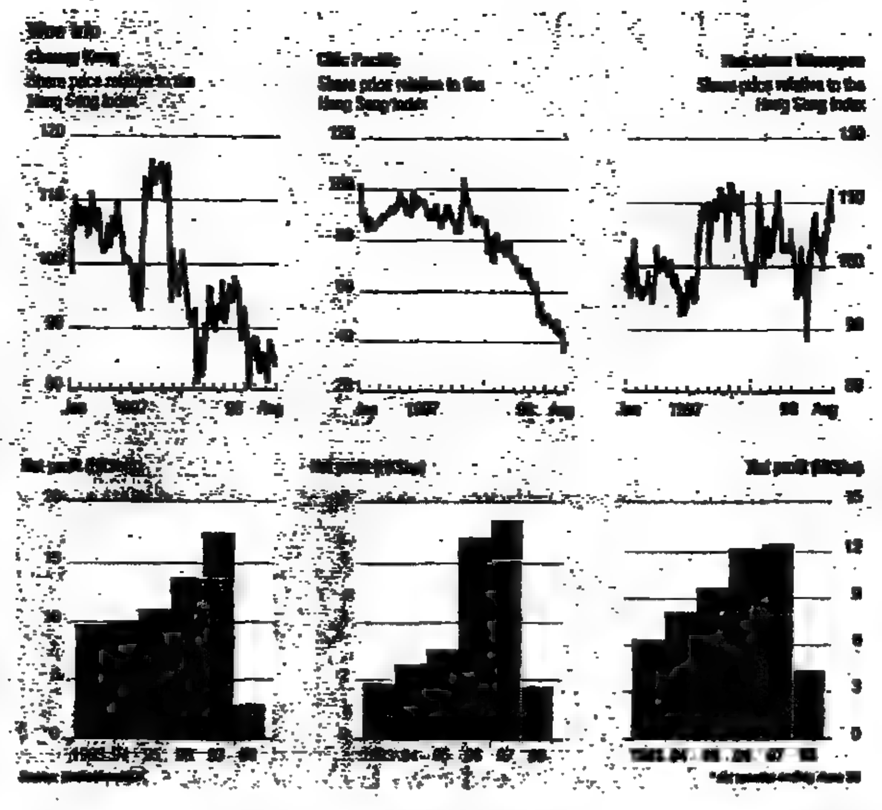
Like Cheung Kong, Hutchison has a strong balance sheet and has managed to lock in cash flow without resorting to high-interest loans.

Hutchison's net profits at the interim stage fell 45 per cent, from HK$7.85bn to HK$4.31bn. Earnings per share dropped 46.6 per cent, from HK$2.08 to HK$1.11, while the dividend has been sliced by 16.66 per cent, from 48 cents to 40 cents.

The group, which earlier this week had its credit rating downgraded by Standard & Poor's, said that despite aggressive competition, its telecoms division was more profitable at the operating level than last year.

However, there was weakness on the retail front, with Mr Li attributing this to reduced contributions from operations in China and south-east Asia and to the effect of unfavourable weather on manufacturing plants. In Hong Kong the group bucked a weak retail market and reported sales in line with the previous year.

At Citic Pacific, the Hong Kong-listed arm of Beijing's main investment vehicle, net profits fell 71 per cent from HK$6.14bn to HK$1.8bn. The company made no provisions, and said it had no plans to do so in the immediate future.




Citic Pacific's results were distorted by HK$2.12bn from its sale of a 7.7 per cent stake in Hongkong Telecom in 1997, and by this year's first-half loss by Cathay Pacific, Hong Kong's de facto flag carrier which is partly owned by Citic.

Larry Yung, chairman, said: "High interest rates and the tightening of liquidity have made the business community more cautious."

However, analysts noted that Citic Pacific had trimmed its interest expenses from the second half of last year, owing to refixing floating loans at more attractive rates and to interest rate hedges.

Earnings per share at the interim stage fell 70.7 per cent, from 287.9 HK cents to 84.4 HK cents. The interim dividend is to be held at 20 HK cents, although unlike last year there will be no special payout.

# Indian groups face struggle to protect their software arms

## Foreign companies cast envious eye over spun-off consultancy units, says **Krishna Guha**

The spectacular rise of India's software sector has prompted a hunt for hidden gems among the unlisted subsidiaries of the country's leading groups.

Many of the big corporate families have their own software service companies which started life as in-house technical support teams serving the great industrial concerns. Now the young software companies are often worth more than their parents.

Tata Consultancy Services, the unlisted software arm of the Tata group, is valued at about $2.5bn – roughly equal to the combined market capitalisation of Tata Iron and Steel, and Tata Engineering and Locomotive, the country's biggest private-sector steel and truck manufacturers.

Mahindra British Telecom, a software joint venture, is worth up to $300m – more or less the same as the market value of the Indian parent, Mahindra and Mahindra, the country's biggest manufacturer of utility vehicles.

Although the software companies are still relatively small in terms of revenues compared with their giant industrial brethren, they are highly profitable at a time when commodity industries are under the cosh.

However, profits alone do not account for the difference.

This arises from a sharp divergence between the earnings multiples investors are prepared to pay for software and industrial businesses in India.

Drawing from experience in the US, international investors are prepared to pay anything from 20 to 50 times forward earnings for a software company. Most earn about 90 per cent of their revenues from the US and are paid in dollars, so have escaped the stigma of association with emerging markets.

But with the Indian economy in dire straits and world commodity prices depressed by the Asian crisis, investors are only prepared to pay 5 to 10 times forward earnings for most industrial companies.

The unlisted software firms are at different stages in their evolution. Tata Consultancy Services – the dazzling jewel in the crown – is India's biggest software company, its top domestic software services company and number one software exporter. The company, which once clocked in steel workers at Tata Iron and Steel at the start of their factory shifts, made Rs11bn ($259m) sales and a pre-tax profit of Rs2.8bn last year. It employs about 9,500 consultants and boasts an international client list.

Tata Consultancy Services is also among those Indian software companies which have progressed furthest up the value chain to higher margin business.

"TCS is able today to come out with solutions or products for an industry such as financial services, retail or manufacturing," said S Ramadorai, managing director. He said the company – wholly owned by family holding company Tata Sons – grew 55 per cent last year.

Many other unlisted software companies are also attracting attention, such as Mahindra British Telecom. Originally an offshore software development centre for British Telecommunications, it had a turnover of about Rs1bn last year and employs 1,000 consultants.

"British Telecom contributes 85 per cent of our turnover but other customers are growing rapidly and we see them taking a bigger slice," said Kiran Deshpande, managing director.

Larsen and Toubro, India's biggest construction company, recently spun off its tiny computer services business as a wholly-owned subsidiary.

Investment bankers are excited by the opportunities to take the biggest of these companies to the market, in India or the US.

At present the owners seem cool on the idea. The companies do not need to raise funds because software development requires little capital investment and produces strong cash flows. "Whatever funds we need, we can generate internally and through borrowing," said Mr Ramadorai.

Listing may wait until competitors have proved the advantage of a stock market quote – for instance by using paper currency to grow by acquisition – or owners need to realise capital to invest elsewhere. But the presence of attractive software arms is already altering the way investors value industrial groups.

"Not many investors look at MBT as a subsidiary of Mahindra and Mahindra," said the head of a Bombay-based investment bank. "There is a lot of value that investors have not factored in."

The rise of software firms is also altering the balance of power within groups.

Judging by the experience of banks with investment banking subsidiaries, or accountancy firms with consultancy arms, it will take a lot of skill to reconcile the interests of the parent and its fast-growing offspring.

The first clues as to how this might be managed will become clear as restructuring plans for the Tata empire drawn up by management consultants McKinsey take effect.

Systematic success: strong revenue streams are deterring companies from listing software arms

## NEWS DIGEST

### PHILIPPINES

## Ayala Land in joint venture township project

Ayala Land, the Philippines' leading property group, yesterday launched an ambitious 2,500ha township project south of Manila, declaring the move a vote of "complete confidence" in the embattled country.

The launch of Ayala South, a joint venture project with Canlubang Estates and Greenfield Estate, will begin with an initial 350ha community development. "This is our way of showing our complete confidence in our country and its ability to overcome the difficulties and challenges now facing us," said Fernando Zobel de Ayala, vice-chairman of Ayala Land.

The launch comes amid increasing depression in the Manila property market and reports of a slowdown at Fort Bonifacio, the largest property development in the capital. Residential prices in Makati, Manila's financial district, were down at least 40 per cent from the peak in June last year, said Rafael Garchitorena, property analyst at Indosuez WI Carr in Manila.

Ayala Land is one of the few property groups positively viewed by analysts as high interest rates and the economic downturn take their toll on the sector.
Justin Marozzi, Manila

### SEMICONDUCTORS

## Acer executives ask for pay cut

The chairman of Acer, the Taiwanese computer maker, and executives at the group's microchip unit have asked for their salaries to be cut to atone for steep losses. "Senior executives have asked that their salaries be slashed to show their determination to share the hardship with the company," said Acer Semiconductor Manufacturing. Stan Shih, chairman, asked for a 30 per cent pay cut.

Acer Semicon, formerly a joint venture with Texas Instruments of the US, reported a loss of T$4.8bn (US$138m) in 1997. The company said it expected an improvement in its profit in 1999 under a corporate restructuring but would not restore salaries until business showed signs of improvement. Mr Shih ordered a reorganisation of Acer Semicon after taking control of the company, a maker of dynamic random-access memory chips. Like most D-Ram makers, Acer has failed to find profits in the over-supplied computer memory chip market.

In June, Mr Shih agreed a plan with IBM whereby the US group would provide technology to help Acer develop "system-on-a-chip" logic devices. Acer hopes the plan will shift it into the more lucrative market for made-to-order "foundry" or logic chips. Acer Semicon said its new product line was expected to generate T$5bn in profits in 2000, when the chipmaking unit hopes to attain a listing on the Taiwan stock market. Reuters, Taipei

### BANKING

## Thai Farmers Bank raises capital

Thai Farmers Bank yesterday said it planned to raise capital through an issue of 1m preferred shares and would issue up to $3bn of debentures.

In the statement to the Stock Exchange of Thailand the bank said its board of directors had approved an increase in the bank's registered capital from Bt13bn to Bt13.57bn ($325m). Reuters, Bangkok

# Funds suffer 'confiscated' Russian assets

By Jean Eaglesham and Jane Martinson

Regent Pacific, the Hong Kong-based fund manager with a focus on emerging eastern European markets, suspended dealings in 12 funds with a combined market capitalisation of over $100m yesterday, as the turmoil in Russia continued.

The affected funds, which include the $55m White Tiger fund, are understood to have a significant exposure to short-term Russian treasury debt.

The government's rescheduling of the debt, combined with the free-fall of the rouble, mean those investments cannot now be valued. "The suspension of trading in the short-term debt until September 26 makes redemptions from the fund [to investors who want to cash in their holding] impossible," said John Szymanowski, an analyst at SBC Warburg Dillon Read.

The affected funds had up to half their portfolio invested in short-term treasury bills, according to analysts. "It is mainly a Regent problem – they were unfortunate enough to have a lot of exposure and a more aggressive strategy than most other regional eastern European funds," said Magnus Kovacec, an analyst at West Merchant Bank.

But Mr Szymanowski said the situation would not necessarily cause problems for Regent Pacific itself: "The fund management business has its money in US dollars, not Russian roubles, so the business is alive."

Regent Pacific is not alone in sustaining serious losses on some of its funds.

Leon Cooperman, president of Omega Advisors, which manages a $4bn hedge fund, said that his series of funds had sustained "substantial losses" because of the Russia crisis.

"Essentially, the Russian government has confiscated western capital and nobody is doing anything about it," he said.

"If Russia had taken over a plant belonging to General Motors, the government would have done something about it." However, Mr Cooperman admitted that his fund had been "wrongfooted in Russia".

Speaking from New York, he played down the impact of the Russia crisis on the $4bn Omega fund, saying that accounts without an exposure to Russia's fixed income market were up on the year to date.

Omega had $24m invested in Russian fixed income securities at the end of Wednesday.

The investment was worth "substantially more than that" before the crisis began, said Mr Cooperman.

The average emerging markets fund operated by UK institutional investors invested between 2 per cent and 4 per cent in Russia, according to industry figures.

The £230m ($376m) emerging markets investment trust run by Foreign & Colonial had 15 per cent invested in Russia at the end of July. While this is understood to have been reduced in the past month, the fund still has a significant exposure.

# Nissan seeks fast way back to the US highroad

*Japanese carmaker's biggest challenge lies in its products, writes* **Nikki Tait**


The 1999 Quest SE: Nissan's new models have been put on display in four US cities

Purple, red and green lights flashed across the stage of a converted Los Angeles community centre as a blues beat thundered out. "Welcome to our future," declared a large Nissan sign hung behind half-a-dozen yet-to-be-unveiled vehicles.

It was the final hurrah in a roadshow repeated in four US cities last month as the Japanese-owned car and truck maker tried to persuade dealers, analysts and the media that it had a coherent strategy under way.

The audiences, comprising a good number of Nissan employees, applauded enthusiastically – and in Smyrna, Tennessee, where Nissan has its only US production facility, they stood on their chairs. Outside observers, however, looked on with more scepticism.

No one needs a break from the past more than Nissan. Once known for its sporty models, Japan's second largest car and truck maker has lost its way over the past five years as it has chased market share and volume. While some of its problems can be sourced to specific difficulties in Japan and Asian markets, North America has also been at the centre of its troubles.

This year, Nissan announced that its North American operations made a net loss of Y80bn ($553m), pushing the group overall to a deficit of Y14bn. In large part, the North American deficit was due to an extraordinary loss related to the company's troubled lease programme. Nissan had been lowering lease terms aggressively, only to find it could not buy the cars back at the values expected. "Bitter medicine, but better to take it now," says Tetsuo Tabata, a Nissan director and head of overseas operations.

But there were underlying problems, too. In a market which is increasingly oriented towards sports-utility vehicles, Nissan has been long on saloons. Its sports-utility models, such as the pricey Pathfinder, were seen as aimed at Japanese consumers rather than the US market. Even its conventional saloons – the Maxima, Sentra and smaller Altima – had lost ground to the formidable competition from Toyota and Honda.

Much of this has been recognised by the carmaker. Management of the North American operations changed last year, for example, and design responsibility has been switched back to the Californian unit at La Jolla. But now, Nissan faces the task of persuading dealers, analysts and the motoring public that it has at least the genesis of an answer.

Some remedial action has been delineated at group level. Overall it has promised to bring down debt by Y1,000bn by March 2001, for example.

On the manufacturing front, it is talking about reducing the number of platforms – core structural designs – from 25 to 14 by 2001, and to 10 by 2003.

But other proposals are specific to the US. At an organisational level, Minoru Nakamura, president of the US operations, took on direct responsibility for Nissan Motor Corporation, the sales and marketing arm, last October, when Robert Thomas, its former chief executive officer who came out of the Ford stable, resigned.

Mr Nakamura says consolidation of Nissan North America and Nissan Motor Corporation should help to co-ordinate activities and make for a more streamlined operation.

On the manufacturing front, Nissan has announced plans to reduce sharply its US production levels, a move designed to bring down inventories. Work at its Tennessee plant is being halted on Fridays until next March. This should cut output there by 25 per cent this year, to 300,000 vehicles. According to Michael Seergy, vice-president, Nissan should be back to two months of dealer inventory by the beginning of October, compared with a peak of over five months.

Meanwhile, the company hopes to get lease sales down from about 40 per cent to 25 per cent by the end of this year, roughly in line with the average for non-US car companies in North America. In recent months, Mr Seergy says, the figure has been only 12 or 13 per cent.

More manufacturing will be done in the US in future, including the new sports-utility model. Nissan's one US manufacturing facility – the Smyrna factory, where it employs about 6,000 people – wins efficiency plaudits: the respected Harbour report named it the most efficient US plant in terms of hours per vehicle for both trucks and cars. Even so, executives talk of taking out another $1,000 per unit of production costs.

But in the end, Nissan's biggest challenge lies with its products – and it is this concern the "roadshow" has sought to address. On the one hand, there are revamps for the Sentra and Maxima planned for 1999 and 2000, designed to give both more character.

By the beginning of the next decade, the Maxima and Altima should also be built off a single platform, produced at Smyrna.

Perhaps more critically, the company is looking at a new sports-utility vehicle, based around the current Frontier model but selling in the under-$20,000 market – also to be built in Tennessee.

And taking a tip from the likes of Chrysler and Volkswagen, there are the concept cars – notably two hybrids, comprising a sports-utility truck (an extended cab truck, with a cargo bed tacked on behind, which could be available early in the 2000s), and a saloon, which stretches out to take on minivan qualities.

Finally, as a *pièce de resistance*, Nissan has produced a revamped version of the 240 Z sports car – a stylish retro-look vehicle, which provided whoops of recognition at the roadshow.

But what does it add up to? The vehicles have been relatively well received by the US motoring press, which has seen design pluses and commercial possibilities in the package presented. But lingering at the back of most minds is the suspicion that all these plans could be overtaken by events.

Nissan Diesel, the commercial vehicle unit, has a pact with Daimler-Benz – which, in turn, is merging with Chrysler of the US. Already, there are suspicions that a more extensive agreement with Nissan could be on the stocks in the relatively near future.

As Toyota's US chief executive said recently, the Daimler-Chrysler deal acted as a "wake-up call" for the industry.

For a number of smaller (Japanese) entities "struggling in their home market", this could be a critical time, he suggested.

# Koor profits halved by mid-term

By Avi Machlis in Jerusalem

Koor Industries, Israel's biggest holding company, yesterday said the country's economic slowdown and falling telecommunications sales sent earnings tumbling 50 per cent in the first half.

Net income fell from US$90m, or $1.20 per American Depository Share, in the first half last year to $45m, or 50 cents per ADS, this year.

Revenues fell 9 per cent from $1.83bn to $1.67bn over the same period.

Capital gains of $54m from the sale of subsidiaries failed to lift Koor's results. Excluding one-off gains, the group incurred a net loss of $9m for the period.

Loss of sales from divested companies also contributed to reduced revenues.

Jonathan Kolber, Koor's new chief executive, said the conglomerate was "actively redeploying assets" to focus on its main operations: telecommunications and agrochemicals.

Analysts have been bullish about Koor's new management in spite of poor results this year. "Koor is not an earnings story this year – it's a restructuring story," said Elise Horowitz, Israel analyst at Lehman Brothers, the investment bank.

"Investors just have to be patient in terms of reaping the benefits."

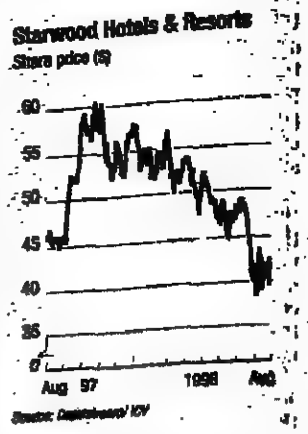
However, as it restructures, the company may face another setback in the second half from MA Industries, its agrochemicals subsidiary.

Meanwhile, Clal Israel, the country's second-largest industrial conglomerate, said capital gains from the sale of subsidiaries boosted first-half net income from Shk62.5m to Shk215m ($57.4m). Revenues were unchanged at Shk3.3bn.

# Starwood shares fall as payout is cut

By Richard Tomkins in New York

Starwood Hotels & Resorts
Share price ($)



Source: Datastream/ICV

Shares in Starwood Hotels and Resorts Worldwide, US owner of the Sheraton and Westin chains, tumbled 7 per cent yesterday after the company slashed its dividend and announced a $1.2bn charge to net profits.

The moves came as part of a long-awaited restructuring that will end Starwood's unusual status as a paired share real estate investment trust and turn it into a more conventional corporation.

Starwood said its dividend would be cut from 52 cents a quarter to 15 cents, starting in this year's fourth quarter – a fall of 71 per cent.

It also announced it would take a non-recurring special charge of about $1.2bn, most of it representing deferred tax liabilities resulting from the reorganisation.

Starwood's shares, which hit a high of $61¼ last October, have been falling for months in the expectation that the company would lose its paired share status. Yesterday, they fell a further $3$\frac{1}{16}$ to $39$\frac{9}{16}$ in early trading.

Shares in other paired share real estate investment trusts, or reits, also fell. Patriot American Hospitality was down $¾, or 5 per cent, at $15¾, and Meditrust was down $1$\frac{1}{16}$, or 7 per cent, at $16$\frac{1}{2}$.

Until now, Starwood has consisted of two entities: a reit, which owns the hotel assets, and an operating company, which runs the hotels. Shares in the two are paired and trade as one.

Reits enjoy a special status that exempts them from tax provided they remain passive investment vehicles and pay out all their earnings in dividends.

Under the new structure, the reit will become a subsidiary of the operating company. Instead of paying out all its income to shareholders, it will pay a substantial portion of the dividends to the parent company.

Barry Sternlicht, Starwood chairman and chief executive, said the extra cash would enable the company to grow without having to issue shares each time it needed more money.

"At the end of the day, we faced a choice between being a growth company or a yield-driven company, and we feel it was in our best interests to choose growth," he said.

Starwood's reorganisation was forced by federal legislation that proposes removing many of the tax advantages enjoyed by paired share reits.

This special tax status gives these reits significant advantages over other companies, particularly when making acquisitions, and helped Starwood outbid Hilton Hotels for ITT last year.

After that bid battle, Hilton and others lobbied Congress to close the loophole in the tax law.

# Berg agrees to French takeover

Berg Electronics, the US supplier of connector and cable assembly products, yesterday agreed to be acquired by Framatome Connectors International, a French company, in a deal valued at $1.85bn including assumption of debt, write our financial staff.

Framatome will pay $35 in cash for each Berg share. The company said the deal had the approval of Berg's board but was subject to shareholder approval.

Framatome is a wholly owned subsidiary of Framatome SA of France. In 1997, connectors accounted for about FFr6bn ($1bn), or one-third, of the parent's annual revenues of FFr18bn, up from FFr4.7bn in 1996. This placed it third in the global connectors market.

Dominique Vignon, chairman, has said connectors could account for half of Framatome's activities from early next century. The company is best known for its nuclear engineering business.

Shares in Berg, which had 1997 sales of $785m, closed on Wednesday at $21¼ in New York.



[illegible]

BREWERIES STRENGTH OF STERLING AND HIGH INTEREST RATES BLAMED FOR DECLINE IN CONSUMER CONFIDENCE

# S&N sees signs of a downturn

By John Willman

Scottish & Newcastle, the UK's largest brewer, yesterday reported a downturn in trading conditions in its pubs and warned of a more general decline in consumer confidence as the economy appeared to be slowing.

Brian Stewart, chief executive, told the annual meeting that the bad weather, the impact of the strong pound on tourism and declining consumer confidence had hit trading in July and the first half of August.

S&N brews Foster's lager, John Smith's bitter, Newcastle Brown and continental lagers such as Beck's and Kronenbourg 1664. It has about 2,600 pubs, with almost 1,900 directly managed and some 650 branded outlets such as Chef & Brewer food pubs and Rat & Parrot theme pubs.

Seven weeks ago, Mr Stewart said he had seen no signs of the downturn in sales reported by other brewers and pub operators. Regional groups such as Wolverhampton & Dudley and Greenalls had blamed poor weather for disappointing results, and the early exit of England and Scotland from the football World Cup was cited by others as having hit business.

Yesterday, Mr Stewart said only that he expected Scottish & Newcastle to weather "a more difficult trading period" better than its competitors. "We remain confident in our ability to outperform in the remainder of the year," he said.

Sir Alastair Grant, S&N's chairman, said consumers were spending less and saving more amid concerns over the general direction of the economy. He blamed the strength of sterling and high interest rates. But on balance he said consumer spending trends were likely to continue, since the rise in mortgage costs had not reached the levels of the late 1980s. But businesses such as S&N could not be immune to the more general downturn in manufacturing.

"Our consumers depend for their livelihoods upon the performance of the businesses which employ them," he said. "Our perception is that many companies who have made great efforts to become more efficient are now being adversely affected by cheaper competitive products, sourced from abroad, and by the relatively high true costs of servicing their financial requirements."

S&N shares fell 38p to 760p.

● Shareholders approved rule changes to allow S&N to buy back its shares and authorised purchases of up to 10 per cent of its ordinary shares before the 1999 AGM.

Brian Stewart: expects to weather the difficulties Ashley Ashwood

# Millennium bomb costs hit Reckitt & Colman

By John Willman

Reckitt & Colman shares fell sharply yesterday, after pre-tax profits at the household goods and pharmaceuticals group declined 7.7 per cent in the first half because of the cost of dealing with the millennium bomb.

The shares closed 66p down at 998p, after the group announced profits for the half-year to July 4 had slid from £165m to £152m ($251m).

Year 2000 compliance preparations resulted in a charge of £16m against profits, with a further £25m of costs likely in the second half and the remainder of the £80m total next year.

The strength of sterling and the turmoil on the Asian currency markets also hit the group, which makes Dettol and Lysol disinfectant, and proprietary medicines such as Gaviscon and Disprin. Exchange rate movements knocked £11m off operating profit and £67m from sales.

Vernon Sankey, chief executive, said underlying profits before Year 2000 costs and at constant exchange rates were up 7.8 per cent. Earnings per share, down from 29.1p to 27.6p, were up 11 per cent on a fully diluted basis after allowing for the systems costs and currency movements.

"Overall we are pleased with the results," he said. "We continue to deliver double-digit earnings growth at constant exchange rates."

Turnover on continuing operations was flat at £1.11bn.

Mr Sankey said Reckitt continued to focus on establishing number one and two positions in its markets, with almost 75 per cent of sales from such products. These had the highest growth prospects and margins, he added.

The group's strategy was to globalise these brands and to concentrate on developing markets. This exposed the group to volatility, Mr Sankey said, with turnover and profit down in south-east Asia, which accounted for about 3 per cent of group profit.

But Latin America produced like-for-like sales increases of 10 per cent, with even stronger performance in Brazil, which accounted for 60 per cent of business in the region.

In North America, Reckitt fended off an attack on its market-leading Resolve carpet cleaner, raising turnover 7 per cent and profit 1.3 per cent.

The interim dividend is 9.5p, up 9.2 per cent.

# World Cup bets lift Ladbroke

By Scheherazade Daneshkhu

Economic turmoil in Asia halved Ladbroke's hotel profits in the region, as travellers stayed away from such political hotspots as Indonesia, and Japanese companies reined in spending on banqueting.

But the World Cup gave a boost to the betting business, contributing £12m ($20m) in total, of which £8m was accounted for in the first half.

However, in the hotels division, strong recovery in mainland Europe and continued good trading in the UK and the Americas offset a downturn in Asia and the Middle East. Hotel operating profits rose 5 per cent to £80.2m.

Group pre-tax profits rose from £101.2m to £123.7m in the six months to June 30, owing to a 42 per cent increase in betting profits and solid trading in the Hilton International hotels business. Total sales rose 24 per cent to £2.4bn.

Operating profits in Asia and Australasia fell from £12.9m to £6.6m on sales down 25 per cent to £230.1m. They also fell in the Middle East and Africa, from £8.5m to £6.3m, after the Luxor massacre in Egypt last November and political difficulties in Kenya.

However, the UK – which accounted for 55 per cent of hotel profits – remained robust. Peter George, chief executive, said he saw no signs of a UK downturn. European hotels staged a strong recovery, with operating profits up 25 per cent to £15.5m.

Mr George said Hilton International had secured 13 new management contracts in the first half, for a total equity stake of less than $10m, putting it on track to achieving the annual target of 20 new contracts.

In the betting and gaming division, operating profits rose from £56.9m to £80.7m, driven by European retail betting which jumped 55 per cent to £66.2m. A drop in the number of Asian high rollers contributed to a 42 per cent fall in casino profits to £2.5m.

Net debt of £842.6m (£702.9m) gave gearing of 57 per cent (44 per cent). Interest cover remained 4.9 times. An interim dividend of 2.94p (2.6p) is payable from earnings of 8.03p (6.54p).

## RESULTS

| | | Turnover (£m) | | Pre-tax profit (£m) | | EPS (p) | | Dividends: Current payment (p) | Date of payment | Corresponding dividend | Total for year | Total last year |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| [illegible] | 3 mths to June 30 | 52.9 | (13.3) | 4.58♥ | (0.05L) | 3.8 | (0.9L) | 1大 | Feb 19 | - | - | 3.5 |
| [illegible] | Yr to Mar 31 | 2.81 | (8.93) | 0.442L♠ | (0.153L♥) | 0.41† | (0.2L) | - | - | - | - | - |
| [illegible] | 6 mths to July 5 | 123.9 | (125.8) | 2.62♥ | (3.22) | [illegible] | (6) | 1 | Oct 16 | 2.1 | - | 6.3 |
| CFS | 6 mths to June 30 | 3.16 | (3.7) | 0.161 | (0.276) | 1.23 | (2.07) | nil | - | nil | - | 1.3 |
| Delcam ф | 6 mths to June 30 | 6.48 | (7.07) | 0.676L | (0.372) | 9.6L | (4.4) | nil | - | 0.6 | - | 1.5 |
| Edinburgh Oil & Gas | 6 mths to June 30 | 1.51 | (2.35) | 0.305L | (0.379) | 0.87L | (1.09) | - | - | - | - | 0.3 |
| Guinness Peat | 6 mths to June 30 | 64.9 | (52.5) | 15.3 | (19.6♥) | 3.07† | (2.38) | - | - | - | - | 0.53# |
| Ind Energy ф | Yr to June 30 | 38 | (11.2) | 0.185L | (1.24L) | 1.1L† | (9.4L) | - | - | - | - | - |
| Ind News ♣ | 6 mths to June 30☆ | 312.3 | (285.8) | [illegible] | (39♠) | 8.78 | (7.58) | 3 | Oct 30 | 2.6 | - | 7.8 |
| Keller | 6 mths to June 30 | 125.1 | (118) | 5.3 | (4.65) | 5.9 | (5.2) | 2.35大 | Oct 30 | 2.1大 | - | 6.45大 |
| Kingspan ♣ | 6 mths to June 30 | 137.2 | (117.8) | 18 | (13.1) | 8.2† | (6) | 0.5 | Oct 19 | 0.42 | - | 1.12 |
| Ladbroke | 6 mths to June 30 | 2,411 | (1,949) | 123.7 | (101.2) | 8.03 | (6.54) | 2.94 | Apr 6 | 2.6 | - | 7.11 |
| Mondas ф | Yr to Apr 30 | 0.297 | (0.057) | 0.484L | (0.421L) | 7.9L | (10.5L) | - | - | - | - | - |
| Notts Forest ф | Yr to May 31★ | 11.3 | (3.41) | 4.81L | (1.27L) | [illegible] | (3.1L) | - | - | - | - | - |
| Oriflame Intl | 6 mths to June 30☆ | 118.3 | (124.2) | 13.6 | (22.2) | 10.8 | (17.5) | 4.5 | Nov 18 | - | - | 15.9 |
| Quicks | 6 mths to June 30 | 332.4 | (175.9) | 5.01 | (3.1) | 8.9† | (8.4) | 3.5 | Nov 5 | 3.25 | - | 7.75 |
| Reckitt & Colman | 6 mths to July 4 | 1,111 | (1,112) | 152.4♠ | (165.1) | 27.6 | (29.1) | 9.7 | Apr 7 | 8.7 | - | 24 |
| [illegible] | 6 mths to June 30 | 943 | (1,061) | 89 | (92) | 11.7 | (12.1) | 6.3 | Apr 6 | 6.1 | - | 14.5375 |
| Rolls-Royce | 6 mths to June 30★ | 2,179 | (2,166) | [illegible] | (116) | 7.17 | (6.5) | 2.45 | Jan 11 | 2.2 | - | 5.9 |
| Stadium | 6 mths to June 30 | 32.9 | (31.4) | 3.1 | (2.74) | 8.1† | (7) | 1.85 | Oct 1 | 1.65 | - | 5 |
| Workplace Tech | 6 mths to June 30 | 40 | (30.8) | 1.32 | (0.986) | 2.44† | (1.23) | 0.6 | Oct 9 | - | - | - |

Earnings shown basic. Dividends shown net except #Gross. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. 大Foreign income dividend. †On increased capital. фAim stock. ♣Irish currency. ★Comparatives restated. ☆Comparatives for six months to September 30. ♦At October 31. §Total income.

# Ruud appointment gives Newcastle United a fillip

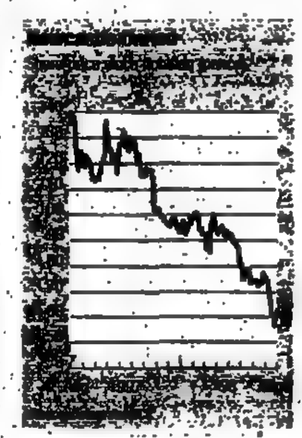
By Patrick Harverson

Newcastle United, the publicly quoted football club which has endured a miserable run of form on and the off the pitch since flotation last year, received a rare vote of approval from the City yesterday when the appointment of Ruud Gullit as its new football manager lifted the share price by 12 per cent.

Gullit, who was sacked as manager of another quoted club, Chelsea, last February, replaces Kenny Dalglish. Newcastle said the former Liverpool and Blackburn manager had tendered his resignation last week, although Dalglish appeared to disagree with the club's version of events.

Although football stocks do not normally move sharply in reaction to hirings and firings, yesterday's 6½p increase in Newcastle's share price to 63p reflected the belief among investors that under Gullit the team would stand a better chance of achieving success on the pitch, and thus generating extra income for the club.

Since its April 1997 flotation, Newcastle has hardly put a foot right. The team has failed to win a trophy or mount a meaningful challenge for the league title, and the club's business management has been in almost constant turmoil.



A string of directors resigned amid scandals and internal dissent sion between majority shareholders and non-executive officers, while ambitious plans for a new stadium were shelved due to local protests. The combination of these problems and investors' loss of confidence in football stocks has cut Newcastle's share price by more than half from its 135p issue price.





# Whirlwind from Idaho has an investment house humming

Orie Dudley Jr has been overhauling the fund management arm of Scottish Widows since becoming its head at the beginning of the year, writes **Jane Martinson**

The office of Orie Dudley Jr in the plush new headquarters of Scottish Widows overlooks the back of Edinburgh Castle.

This vantage point seems fitting for an American invader, who has taken charge of the fund management arm of Scottish Widows Investment Management, Scotland's second largest mutual.

His arrival at the beginning of the year as chief executive of Swim has *prompted the departure of* two of the company's most senior investment professionals.

He then reorganised asset allocation at the company, which has some £31bn ($51bn) under management, resulting in substantial shifts in its portfolios.

Rather than causing consternation, however, his assault has been largely wel*comed by investment consul*tants and even senior members of Scotland's financial industry.

One leading fund manager said: "Swim had really become a bit dozy. It needed a breath of fresh air."

The reaction is largely because of a sense that tough action is necessary if Scottish Widows is to be taken seriously as a fund *manager rather than a* sleepy mutual insurer.

Consultants point out that Swim had lost hundreds of millions of pounds in UK pension *fund business* last year alone because of poor performance.

Mr Dudley has spent his first six months tackling five main areas of investment performance. The first of these was asset allocation. "When I walked in, it was being formulated by a cast of thousands," he says.

He immediately cut the number on the central *investment committee from* 15 to 5 and put himself at the head of it. He is now looking for a chief investment officer and aims to introduce more analytic tools.

Swim has completely rebalanced its equity portfolios in the past few months, which has led to turnover of £5bn of shares in the UK alone.

The area of UK equities *has perhaps seen the biggest* upheaval following the departure of Stan Pearson, who was in charge, and Leslie Robb, was moved from his position as co-head of UK equities.

Mr Dudley, who has worked with Putnam, the US asset manager, felt that Swim's UK holdings "looked a bit too much like an index".

*Since the beginning of the* year, the company has cut its weighting in the FTSE All-Share by 3 percentage points to 51 per cent and *investments in 120 compa*nies have fallen to 70.

The company's removal of £500m from UK equities in one swoop last month shocked brokers, who questioned the heavy costs of such a market-moving withdrawal.

Mr Dudley admitted that the trade could have been handled better, but added that all the fuss related to *the "tail end" of the manoeu*vre.

Other changes to Swim's equity investment include the addition of a sector-based approach for the biggest companies.

The bond team, meanwhile, has been strengthened after the departure of Ken Robertson, another company stalwart. Mr Dudley intends to increase the team *from four to eight* in the next two years.

Mr Dudley believes his last change – the introduction of an individual element to the bonus package for staff – could be the most significant.

The 54-year-old from Boise, Idaho, says the move brought "US culture to play *in a tangible way*". *If the* scale of the changes so far has been ambitious, so are Mr Dudley's plans. He wants funds under management to more than double to £100bn in five years' time, through a combination of organic growth and acquisitions.

"I have got to beat Merrill Lynch, Goldman Sachs and Morgan Stanley," he says, making it clear where he thinks Swim should be in a world he expects to be increasingly polarised between niche providers and global groups.

The company is understood to be able to assemble *a war chest of up to £500m to* make an acquisition.

Mr Dudley, who is a board member at Widows and is believed to have the support of Mike Ross, its chief executive, says the company is under-represented in the US and continental Europe.

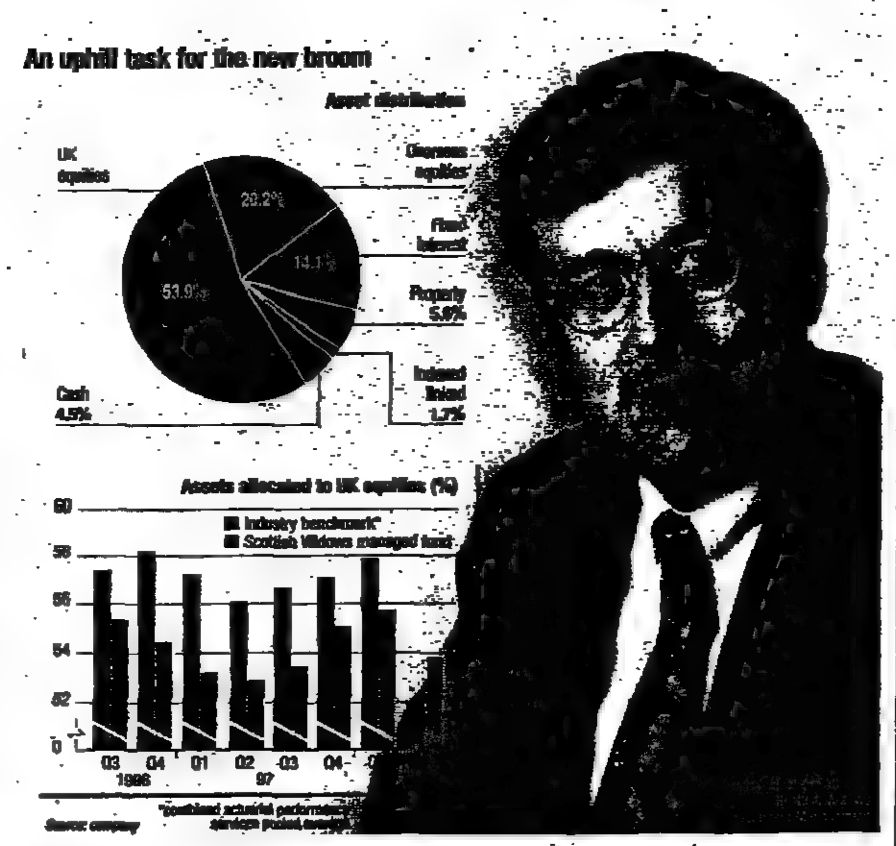
After six months laying the groundwork, Mr Dudley is now ready to look for those opportunities.

"I spent the first six months looking inwards. Now I can be more outward-looking," he says.

Most of Swim's funds are derived from the insurance-based products of its parent *company. If Mr Dudley is* to change that, he needs good performance and an increased marketing effort.

In his latest report to policyholders, Mr Dudley, who confesses himself to be keenly competitive and ambitious, writes: "The culture at Swim, to the degree it mirrors the chief executive's personality, will change accordingly."

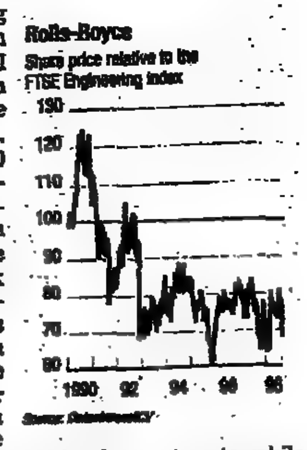
The next six months are unlikely to see the pace of change slow. "We have made the changes, but we are very much aware that the kind of improvement we are *seeing has to continue,"* he says.




## COMMENT

### Rolls-Royce

Any company pledging double-digit earnings growth for the next four years will surely command a premium rating. Er, no. Rolls-Royce has made that commitment, yet it languishes at a 30-40 per cent discount to the market. Respectable results yesterday were rewarded with an 8 per cent slide in the shares. Investors must think that John Rose, chief executive, is not a man of his word, or are dazzled by a vision of a world on the edge of a financial abyss. Either way, they risk missing a good story. True, profits were helped by lower net research and development costs, while the operating margin fell. But both issues were well flagged and neither is threatening, although margins will of course need to improve if the double-digit target is to be met; increased defence and parts sales should help, as will progress on costs. If a global downturn arrives, no company will escape. But strong order books make Rolls-Royce's earnings more secure – and more visible – than most, as do strong positions in markets with high entry barriers. On a 1998 earnings multiple of 14, the shares are a buy.




### Reckitt & Colman

Earnings growth above 10 per cent may be welcome in falling markets, but not when it is achieved with mirrors. Strip away sterling's strength, millennium costs, brand disposals and a lower tax rate, and Reckitt & Colman's interims were a tad disappointing. The main wobble came in the US, although the competitive pressure was not so surprising after Procter & Gamble's recent caution.

It was ever thus. In Reckitt's two big mature markets, Europe and North America, sales growth is slow. Margin improvement is also an uphill task from a relatively high base – Reckitt does not share Unilever's recovery credentials. The growth areas are in emerging markets, currently a cus for nervous investor reaction. Reckitt will rightly stick to its guns: its best opportunities do lie in countries like Brazil and India. It does have more scope to streamline globally. But because its strong position in mature markets invites questions about consolidation, speculation about a deal in Europe or the US will not go away. This leaves resilient Reckitt well underpinned on a market rating.

# Australia slows Guinness Peat

By David Blackwell

Guinness Peat Group, the investment company that lost a contested bid for Bluebird toys earlier this year, yesterday reported a 19 per cent fall in interim profits to £15.8m ($26m).

But after a sharp reduction in the tax charge, earnings rose from 2.38p to 3.07p.

The group, chaired by Sir Ron Brierley, still has stakes in Sketchley and Staveley Industries, the services groups, and Young's, the brewer. Blake Nixon, executive director, said Guinness Peat had made good progress in the first half, but was taking a cautious stance in the second in view of the market decline. "A lot more companies are starting to look interesting – but we are being a lot more selective."

"The fall in the tax charge from £7.63m to £909,000 reflected a decline in investment income at Tyndall Australia, the 50 per cent owned life assurance and fund management subsidiary. Mr Nixon said that after stripping out the Tyndall figures, underlying operating profits were £7m ahead.

About £2.5m of this was generated by the sale of its 22.9 per cent stake in Bluebird toys to Mattel, the US toy group that won the contested bid. A further surplus came from the sale of its stake in Allgas Energy in Australia to a US utility.

In March the group halved the number of shares in issue to 419m after a rights issue followed by a scrip issue. However, Mr Nixon admitted that the consolidation had not had the desired effect. The shares closed at 41½p, down 2½p.

# Independent Newspapers falters

By Jenette Owen

First-half profits at Independent Newspapers – the Irish group which in March took control of The Independent and The Independent on Sunday – fell I£5m ($7m) as a result of currency factors and acquisition costs. The group, which owns newspapers, magazines, outdoor advertising and electronic media, spent I£81m on expansion in the six months to June 30.

Pre-tax profits fell from I£39m to I£34.1m, on turnover of I£312.3m (I£285.8m). Operating profits rose from I£49.1m to I£55.1m.

In March Independent Newspapers, chaired by Tony O'Reilly, acquired the remaining 53.2 per cent of Newspaper Publishing, publishers of the Independent titles, for I£4m. James Parkinson, finance director, estimated The Independent and its Sunday paper had lost I£6m in the first half.

The group also bought an outstanding stake in Wilson & Horton, the New Zealand newspaper company, and increased its shareholding in Independent Newspapers Holdings of South Africa to 73 per cent.

Mr Parkinson said that currency weakness in New Zealand cost the group I£2m. He forecast it could have even more of an effect in the second half. However the group managed to increase operating profits by 6 per cent to NZ$43.6m ($21.5m).

Ten of the group's 14 newspapers in South Africa showed an increase in circulation, but costs are to be tightened to counter the weakness in the rand and interest rate rises.

## EURO PRICES

### EQUITIES

# Russian crisis takes its toll

**EUROPEAN OVERVIEW**

By Vincent Boland

European stock markets were sent reeling again yesterday by the worsening crisis in Russia. Share prices fell across all sectors, spreading out from the banking stocks that sank on Wednesday after figures began to emerge of losses on Russian positions.

Markets in the euro bloc did not show the huge falls evident in central and eastern Europe - share prices fell 17.3 per cent in Moscow, 14 per cent in Budapest and 6 per cent in Warsaw. But traders said there was evidence of heavy selling, although some of the declines were due to an absence of buyers as much as to pressure from investors bailing out.

The FTSE Eurotop 100 index of leading European shares fell 92.29 points or 3.44 per cent to 2,590.38. The broader FTSE Eurotop 300 index fell 42.6 points or 3.66 per cent to 1,120.77. The FTSE Ebloc 100 index of companies within the proposed euro region fell 38.65 per cent or 4.01 per cent to 925.47.

Financial stocks were again among the main casualties, and the index of retail bank shares fell 5.29 per cent on further speculation about how their fortunes will be affected by their exposure to the Russian market. Shares of CS Group tumbled another Ecu 13.10 to Ecu 160.25, Deutsche Bank fell Ecu 4.60 to Ecu 57.35, and UBS fell Ecu 14.20 to Ecu 304.56.

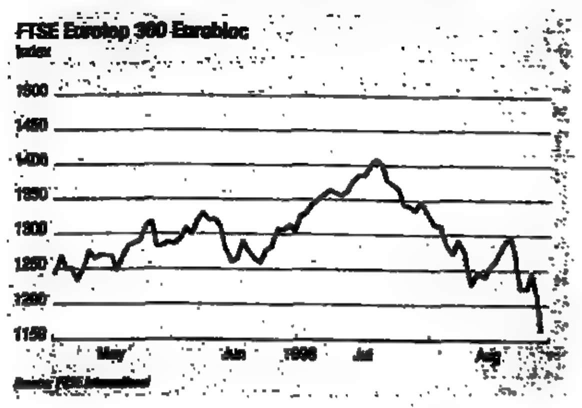
Credit Suisse First Boston, the Swiss-owned investment bank, has suffered losses of up to $500m because of Russia's impact, while other banks are also beginning to acknowledge problems on their Russian loan portfolios and proprietary positions.

Car company shares also suffered, with the automobile sector index falling 5.49 per cent. German manufacturers were the worst hit: Volkswagen fell Ecu 4.80 to Ecu 66.30, Daimler Benz also fell Ecu 4.80 to 83.87, and BMW fell Ecu 21.90 to Ecu 700.43.

The oil, building materials, household goods, healthcare, insurance and information technology sector indices all fell by more than 5 per cent. Every sector fell, however, except for the UK-based water stocks, which rose slightly, while the overall UK index managed a small degree of outperformance.

**FTSE Eurotop 300 Eurobloc**

Index



### FTSE Actuaries Share Indices — European series

| August 27 National & Regional Markets | Ecu Index | Day's % | change points | Yield gross % | p/e adj yld | Total rtn (Ecu) |
|---|---|---|---|---|---|---|
| FTSE Eurotop 300 | 1120.77 | -3.66 | -42.60 | 2.58 | 21.91 | 1158.13 |
| FTSE Eurotop 100 | 2590.38 | -3.44 | -92.29 | 2.58 | 32.45 | 925.61 |
| FTSE Ebloc 100 | 925.47 | -4.01 | -38.65 | 2.20 | 12.57 | 937.22 |

### OTHER INDICES

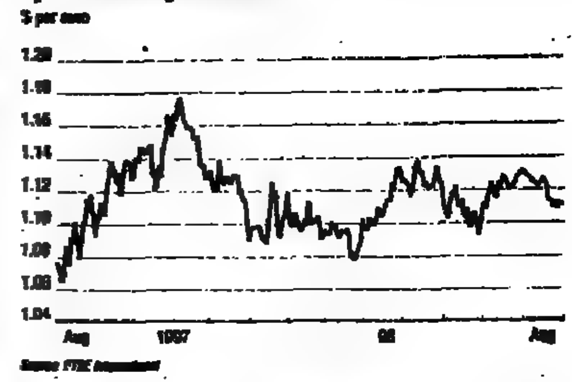
### FTSE EUROTOP 300

### CURRENCIES & MONEY

**FT SYNTHETIC EURO RATES**

**Synthetic Euro against the dollar**

$ per euro



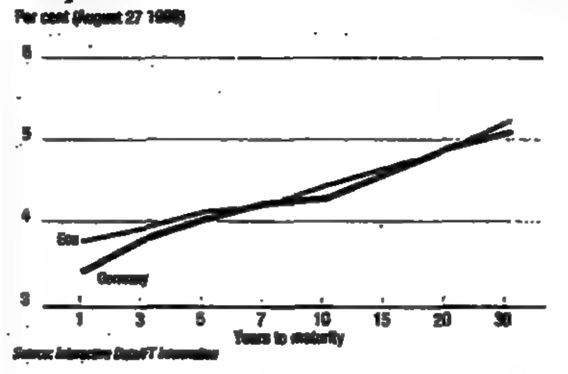
Source: FT/SE Interactive

**EUROZONE CURRENCY CONVERGENCE**

### BONDS

**Bond yield curve**

Per cent (August 27 1998)



**EUROZONE CORPORATE BONDS**

**GOVERNMENT BOND SPREADS vs ECU**

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

**EUROZONE CREDIT SPREADS vs ECU**

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

# Safe-haven buying bolsters prices

**GOVERNMENT BONDS**

By Jeremy Grant in London and John Labate in New York

Waves of safe-haven buying sent bond prices higher yesterday and some yields in the US, Britain and Germany to record lows as emerging market worries rippled across the globe.

The benchmark US 30-year long bond yield reached a record low of 5.369 per cent and in the UK, the gilt future outperformed its German bund counterpart for the first time in weeks as the UK market shrugged off domestic interest rate concerns.

Russia's political and economic woes dominated trading screens throughout the day, with analysts concerned about how the Japanese and Hong Kong stock markets would perform overnight.

The contagion effect from Russia has worsened to an extent that many market participants are buying bonds on a belief that the global economy is likely to be affected soon, in spite of the relatively small size of Russia's economy.

That mood was bolstered yesterday as the Dow Jones Industrial Average index of leading shares lost 350 points in early trading.

In Latin America – a key emerging market – stocks plummeted in reaction to events in Russia.

Moscow suspended all rouble foreign exchange trading yesterday and said today's session would be cancelled as well.

A Reuters poll of global fund managers revealed yesterday that they had boosted their holdings of US and European bonds since June.

Some analysts said that with government bond yields at record lows, there is increasing pressure on the US Federal Reserve to cut interest rates.

"The longer it takes for the Fed to wake up and smell the coffee, and for the hawks to look beyond jobs data, the more protracted the melt-down in emerging and equity markets will be," said Kit Juckes, head of bond and currency strategy at NatWest.

**US TREASURIES** surged on a new flight to quality bid as US investors began the day with new concerns centred on the Russian financial system.

By early afternoon the 30-year Treasury long bond was up 12/32 to 101 12/32, sending the yield plunging to a record low of 5.369 per cent.

While Treasury bills were weaker, the market for most notes improved with bonds. The 10-year note was up 15/32 to 104 1/32, yielding 5.085 per cent, but the two-year note fell 1/32 to 100⅞, yielding 4.926 per cent.

With many global stock markets in retreat on Russian fears, US shares opened lower and continued falling throughout the morning session, triggering new buying of Treasuries.

The Commerce Department reported that GDP for the second quarter had been revised upwards to 1.6 per cent from the earlier reported 1.4 per cent rise.

Inventory accumulation figures were revised downward while consumer spending estimates were revised upward. The price deflator, based on chain-weighted GDP, was 0.8.

In a separate release initial unemployment insurance claims were shown to have fallen 6,000 to 297,000 for the week ending August 22. Today, new figures on personal income and consumption will be reported.

**UK GILTS** broke out of recent trading patterns and joined the global government bond rally, helped by fresh evidence that UK growth is slowing.

The yield on the benchmark cash 10-year gilt fell to 5.35 per cent, its lowest since the 1960s. Still in the cash market, the spread between the benchmark gilt and bund narrowed by 4 basis points to 122.

The September 10-year futures contract settled 1.07 points higher at 112.09 in volume of 62,000 contracts traded.

Neil Parker, treasury economist at Royal Bank of Scotland, said: "Traders have realised gilts are a better bet on the yield, and that the UK has limited exposure to Russia, whereas Germany's exposure is more substantial. This is something I would expect to continue."

The Confederation of British Industry yesterday painted a gloomy economic picture for the UK, cutting its forecasts for this year and next.

**GERMAN BUNDS** were bolstered by rumours in the market that Russian president Boris Yeltsin might resign.

The September 10-year bund future settled 1.09 points higher at 113.93 in heavy volume of 575,000 contracts traded in Frankfurt.

# Japanese bank to securitise US assets

By Edward Luce

Tokyo Mitsubishi Bank, Japan's largest and highest rated bank, is planning to issue its first asset-backed bond based on its US lending portfolio.

The $2.25bn offering, to be launched in the next few weeks, will be based on TMB's lending to US corporations. It will not include lending to Japanese or emerging market entities.

The bond, which follows two securitisations of TMB's domestic lending portfolio over the past 12 months, is not the first securitisation of Japanese lending to US entities. Others, including Sumitomo and the Industrial Bank of Japan, have undertaken similar transactions.

However, as the 10th largest lender in the US market, TMB is comfortably the largest foreign bank in the US. The bond, to be led by Tokyo Mitsubishi International and J. P. Morgan, will be in five tranches, with the largest, of $1.95bn, rated triple A.

Japanese banks are expected to become prominent in the asset-backed markets as pressure increases on them to improve their capital adequacy ratios and rachet up their return on equity.

The number of domestic deals has been limited, however, by Japanese regulations that have hampered their ability to transfer loans without the permission of the customers involved.

The European asset-backed market is also expected to grow, with German, Italian and French banks offering mortgage-backed bonds and collateralised loan obligations. European monetary union is expected to stimulate a larger investor base for these securities.

# CME plans real estate derivatives

By Norma Cohen, Property Correspondent

The Chicago Mercantile Exchange is to seek regulatory approval to trade futures and options contracts that for the first time will offer investors a means to hedge their holdings in US real estate.

The CME said its board had approved plans for a futures contract, and options on futures, which will track the Standard & Poor's Real Estate Investment Trust Composite Index, which is made up of roughly $131bn worth of reit shares.

Real estate is widely regarded by US and European pension funds and insurance companies as a separate asset class from stocks or bonds.

However, institutional investors in recent years have been paring their holdings of direct property because when markets turn down, they have proven so difficult to sell. Even when markets are strong, it can take months to complete a purchase and overhead costs are high relative to stocks or bonds.

The growth of a derivatives market allowing investors to get in and out of real estate quickly is seen as an important ingredient to promote investment generally.

Rick Redding, vice-president of index products at the CME, said it intended to trade the derivatives on a screen, rather than use the "open outcry" method. Currently, the S&P REIT Index is updated electronically every 15 seconds and prices are available via screen.

Mr Redding said the development of real estate derivatives has long been hampered by the absence of a traded real estate equities sector to underpin futures. Reits have been traded in the US since the 1960s. They are tax-efficient vehicles that require companies to pass on 95 per cent of profits to investors in the form of dividends.

However, until the last property crash in the early 1990s, the sector's market capitalisation never exceeded $10bn, although now it is more than $130bn. Institutional investors' disillusionment with direct property made it possible for reits to purchase assets cheaply from buyers desperate to sell, helping to spur the sector's growth.

Mr Redding said he expected the main purchasers of the new CME products to be institutional investors with direct property holdings.

However, property specialists said they believed the instruments would have little use for that purpose.

"They will absolutely mimic the performance of reits," said Ian Reid, head of the property group at Barclays Bank and the creator of a proprietary property derivative instrument. "But they won't mimic the performance of real property."

Brett Wilkerson, director of reit research at Boston-based Property and Portfolio Research, said he believed the new derivatives will do little to help real estate owners hedge.

"We found that reits are not a true real estate market," he said. Assets in reits are not representative of the market as a whole.

# Fannie Mae adds to benchmark

**INTERNATIONAL BONDS**

By Edward Luce

Fannie Mae, the US mortgage agency, yesterday took advantage of market turmoil with a $2bn to $2.5bn reopening of the 10-year dollar benchmark issue it made in May.

The offering, which will be priced today, is expected to yield a spread of 56 to 57 basis points over the US Treasury benchmark.

The bond, which will be lead-managed by Lehman Brothers, J. P. Morgan and Merrill Lynch, comes at an opportune moment for the borrower.

With the 10-year swap spread having widened to 85 *basis points – the widest* since 1990 – Fannie Mae can offer a decent spread to fixed income investors while exceeding its sub-Libor funding target after having swapped the deal.

The original bond was launched at a spread of 33 basis points over the Treasury while the swap spread was less than 55 basis points. Fannie Mae, in other words, has achieved cheaper funding than on the original offering.

"Both European and US investors are clamouring for AAA paper," said one official. "Fannie Mae has chosen just the right moment to take advantage of the global turmoil."

**ITALY** also seized the day with a well-timed foray into the Swiss franc sector.

The SFr1bn offering, which was lead-managed by Warburg Dillon Read, came at a cheaper Libor rate for the borrower than on its last 10-year Swiss franc deal in 1997.

This was said to be a function both of the current flight to safety climate and the fact that Italy's credit standing has improved significantly since bilateral rates were fixed between the first wave entrants to European monetary union in May.

The offering was Italy's third in a non-Emu currency in the last three months, it having issued a 30-year sterling bond and a 10-year dollar offering.

"Italy wants to diversify its funding base outside of Emu," said an official. About 90 per cent of the offering was sold yesterday.

Elsewhere, the European Investment Bank is rumoured to be preparing to follow Fannie Mae's lead with a dollar offering.

## New international bond issues

| Borrower | Amount m. | Coupon % | Price | Maturity | Fees % | Spread bp | Book-runner |
|---|---|---|---|---|---|---|---|
| **US DOLLARS** | | | | | | | |
| Fannie Mae(a)‡ | 2-2.5bn | 6.00#(i) | (a)R | May 2008 | 0.15R | (a)(5⅝%May08) | Lehman/Merrill/JP Morgan |
| Federal Home Loan Banks | 1.1bn | 5.80# | 99.754R | Sep 2008 | 0.10R | +60(5⅝%May08) | Salomon Smith Barney |
| KfW International Finance‡ | 200 | 6.25# | 100.075 | Aug 1999 | 0.075 | - | Merrill Lynch International |
| Cades‡ | 100 | 6.25# | 100.075 | Aug 1999 | 0.075 | - | Merrill Lynch International |
| **SWISS FRANCS** | | | | | | | |
| Republic of Italy | 1bn | 3.50 | 102.90 | Sep 2008 | 2.75 | - | Warburg Dillon Read |
| **ITALIAN LIRE** | | | | | | | |
| World Bank(b)‡ | 180bn | (b1) | 99.60R | Sep 2018 | 0.60R | - | Credito/Lehman Brothers |

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡Unlisted. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Fungible with $3bn. Plus accrued. Priced later: 56-57bp over Treasuries. b) Callable in Sep 05 and 10 at par. b1) 10% in yr 1; 8% in yrs 3-5, 8% or inverse coupon in yrs 5-7, then 15% - 2 x 12-mth Libor. i) Long 1st coupon.

## WORLD BOND PRICES

### BENCHMARK GOVERNMENT BONDS

| Aug 27 | Red Date | Coupon | Bid Price | Bid Yield | Day chg yield | Wk chg yield | Month chg yld | Year chg yld |
|---|---|---|---|---|---|---|---|---|
| Australia | 01/01 | 8.750 | 108.7671 | 5.83 | +0.19 | +0.38 | +0.40 | +0.51 |
| | 08/08 | 8.750 | 121.1305 | 5.89 | +0.21 | +0.25 | +0.33 | -0.84 |
| Austria | 07/00 | 5.875 | 103.7100 | 3.79 | -0.09 | -0.11 | -0.30 | -0.46 |
| | 01/08 | 5.000 | 104.4800 | 4.45 | -0.10 | -0.11 | -0.36 | -1.30 |
| Belgium | 01/00 | 4.000 | 100.2500 | 3.73 | -0.09 | -0.04 | -0.28 | -0.50 |
| | 03/08 | 5.750 | 109.6100 | 4.50 | -0.09 | -0.11 | -0.37 | -1.31 |
| Canada | 03/00 | 5.000 | 98.6900 | 5.91 | +0.60 | +0.61 | +0.65 | +1.52 |
| | 06/08 | 6.000 | 101.5300 | 5.79 | +0.11 | +0.22 | +0.34 | -0.28 |
| Denmark | 11/00 | 9.000 | 108.9700 | 4.01 | +0.03 | +0.43 | +0.33 | -0.02 |
| | 11/07 | 7.000 | 115.6400 | 4.85 | +0.02 | +0.12 | -0.08 | -1.45 |
| Finland | 01/99 | 11.000 | 102.7314 | 3.34 | -0.07 | -0.04 | -0.26 | -0.80 |
| | 04/08 | 6.000 | 110.6850 | 4.60 | -0.09 | - | -0.22 | -1.36 |
| France | 01/00 | 4.000 | 100.4500 | 3.64 | -0.03 | -0.07 | -0.28 | -0.48 |
| | 04/05 | 7.500 | 119.6500 | 4.08 | -0.08 | -0.15 | -0.45 | -1.18 |
| | 04/08 | 5.250 | 107.2400 | 4.31 | -0.07 | -0.17 | -0.45 | -1.32 |
| | 04/29 | 5.500 | 107.1200 | 5.04 | -0.09 | -0.08 | -0.28 | -1.31 |
| Germany | 08/00 | 4.000 | 100.8100 | 3.44 | -0.07 | -0.14 | -0.48 | -0.84 |
| | 10/05 | 6.500 | 114.3800 | 4.13 | -0.08 | -0.15 | -0.47 | -1.21 |
| | 01/08 | 5.250 | 108.1500 | 4.17 | -0.10 | -0.19 | -0.50 | -1.55 |
| | 01/28 | 5.625 | 109.7800 | 4.98 | -0.11 | -0.08 | -0.30 | -1.44 |
| Ireland | 10/01 | 6.500 | 106.5500 | 4.32 | -0.02 | -0.08 | -0.41 | -1.76 |
| | 08/08 | 6.000 | 111.0000 | 4.59 | -0.04 | -0.12 | -0.38 | -1.86 |
| Italy | 04/01 | 4.500 | 101.0100 | 4.06 | -0.01 | -0.08 | -0.31 | -2.03 |
| | 05/03 | 4.750 | 102.0700 | 4.25 | -0.01 | -0.10 | -0.32 | -2.00 |
| | 05/08 | 5.000 | 102.8300 | 4.63 | -0.08 | -0.05 | -0.35 | -1.88 |
| | 11/27 | 6.500 | 117.5100 | 5.30 | -0.02 | +0.01 | -0.14 | -1.91 |
| Japan | 03/00 | 6.400 | 109.1700 | 0.44 | -0.01 | -0.02 | -0.08 | -0.11 |
| | 03/03 | 4.600 | 110.8305 | 0.81 | +0.01 | -0.04 | -0.19 | -0.69 |
| | 09/05 | 3.000 | 112.3800 | 1.17 | - | -0.06 | -0.20 | -0.90 |
| | 03/18 | 2.700 | 111.2400 | 2.00 | - | -0.05 | -0.25 | -0.89 |
| Netherlands | 05/00 | 9.000 | 108.6300 | 3.67 | -0.05 | -0.12 | -0.34 | -0.47 |
| | 07/08 | 5.250 | 107.1000 | 4.34 | -0.09 | -0.18 | -0.41 | -1.32 |
| New Zealand | 02/01 | 8.000 | 103.2582 | 6.48 | +0.15 | +0.40 | -0.31 | -0.81 |
| | 11/06 | 8.000 | 110.0769 | 6.38 | +0.21 | +0.32 | +0.19 | -0.60 |
| Norway | 01/05 | 9.000 | 100.1200 | 8.27 | +0.36 | +2.17 | +2.01 | +3.70 |
| | 01/07 | 6.750 | 103.7600 | 6.16 | +0.36 | +0.79 | +0.88 | +0.08 |
| Portugal | 03/00 | 5.375 | 102.3200 | 3.81 | -0.09 | -0.17 | -0.39 | -1.48 |
| | 06/08 | 5.375 | 105.8800 | 4.61 | -0.07 | -0.13 | -0.34 | -1.78 |
| Spain | 04/00 | 6.750 | 104.5000 | 3.83 | -0.02 | -0.12 | -0.32 | -1.25 |
| | 01/08 | 6.000 | 110.4500 | 4.60 | -0.07 | -0.08 | -0.32 | -1.74 |
| Sweden | 05/00 | 10.250 | 109.0470 | 4.50 | +0.09 | +0.25 | +0.24 | -0.41 |
| | 05/08 | 6.500 | 111.7420 | 4.94 | +0.06 | +0.22 | +0.04 | -1.68 |
| Switzerland | 03/00 | 5.000 | 104.8500 | 1.75 | -0.06 | -0.29 | -0.37 | +0.10 |
| | 06/07 | 4.500 | 114.8000 | 2.62 | -0.07 | -0.09 | -0.29 | -0.92 |
| UK | 11/01 | 7.000 | 102.5391 | 6.11 | -0.10 | -0.22 | -0.44 | -0.92 |
| | 12/03 | 6.500 | 103.9297 | 5.60 | -0.10 | -0.21 | -0.50 | -1.48 |
| | 12/07 | 7.250 | 113.8906 | 5.33 | -0.13 | -0.22 | -0.50 | -1.77 |
| | 12/28 | 6.000 | 114.1250 | 5.06 | -0.10 | -0.20 | -0.42 | -1.94 |
| US | 05/00 | [illegible] | 100.7896 | 5.02 | -0.11 | -0.38 | -0.48 | -0.97 |
| | 05/03 | 5.500 | 101.9932 | 5.01 | -0.12 | -0.35 | -0.50 | -1.35 |
| | 05/08 | 5.625 | 103.7754 | 5.13 | -0.07 | -0.25 | -0.36 | -1.28 |
| | 11/27 | 6.125 | 109.6431 | 5.46 | -0.04 | -0.12 | -0.28 | -1.19 |
| ECU | 07/00 | 4.000 | 100.2500 | 3.85 | -0.02 | -0.08 | -0.31 | -0.71 |
| | 04/08 | 5.250 | 106.8700 | 4.26 | -0.07 | -0.17 | -0.43 | -1.82 |

London closing. *New York closing. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

### 10 YEAR BENCHMARK SPREADS

| Aug 27 | Bid Yield | Spread vs Bunds | Spread vs T-Bonds |
|---|---|---|---|
| Australia | 5.91 | +1.70 | +0.78 |
| Austria | 4.54 | +0.33 | -0.59 |
| Belgium | 4.51 | +0.30 | -0.62 |
| Canada | 5.79 | +1.58 | +0.66 |
| Denmark | 4.86 | +0.65 | -0.27 |
| Finland | 4.61 | +0.40 | -0.52 |
| France | 4.33 | +0.12 | -0.80 |
| Germany | 4.21 | - | -0.92 |
| Ireland | 4.59 | +0.38 | -0.54 |
| Italy | 4.70 | +0.49 | -0.43 |
| Japan | 1.41 | -2.80 | -3.72 |
| Netherlands | 4.35 | +0.14 | -0.78 |
| New Zealand | 6.38 | +2.17 | +1.25 |
| Norway | 5.97 | +1.76 | +0.84 |
| Portugal | 4.66 | +0.45 | -0.47 |
| Spain | 4.67 | +0.46 | -0.45 |
| Sweden | 4.95 | +0.74 | -0.18 |
| Switzerland | 2.62 | -1.59 | -2.51 |
| UK | 5.23 | +1.02 | +0.10 |
| US | 5.13 | +0.92 | - |
| ECU | 4.38 | +0.17 | -0.75 |

Source: Interactive Data/FT Information
London closing. * New York closing
Annualised yield basis.

### EMERGING MARKET BONDS

[illegible]

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

### BOND FUTURES AND OPTIONS

**France**

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 108.00 | 108.62 | +0.34 | 108.67 | 108.00 | 111,785 | 107,403 |
| Dec | 107.60 | 108.19 | +0.40 | 108.19 | 107.60 | 3,469 | 33,286 |

LONG TERM FRENCH BOND OPTIONS (MATIF)

[illegible]

**Germany**

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

[illegible]

NOTIONAL GERMAN BUND FUTURES (DTB) DM250,000 100ths of 100%

[illegible]

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

[illegible]

NOTIONAL GERMAN BOND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

[illegible]

**Italy**

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lire 200m 100ths of 100%

[illegible]

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lire200m 100ths of 100%

[illegible]

**Spain**

NOTIONAL SPANISH BOND FUTURES (MEFF)

[illegible]

**UK**

NOTIONAL 5 YEAR UK GILT FUTURES (LIFFE) £100,000 100ths of 100%

[illegible]

NOTIONAL UK GILT FUTURES (LIFFE)* £100,000 100ths of 100%

[illegible]

LONG GILT FUTURES OPTIONS (LIFFE) £100,000 100ths of 100%

[illegible]

**US**

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

[illegible]

**Japan**

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

[illegible]

* LIFFE futures also traded on APT. All Open Interest figs. are for previous day.

**Ecu**

ECU BOND FUTURES (MATIF) ECU100,000

| | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | - | 106.76 | -0.16 | - | - | 0 | 18 |

### US CORPORATE BONDS

| Aug 26 | Red date | Coupon | S & P Rating | Bid price | Bid yield | Day's chge yld | Mth's chge yld | Sprd v Govts |
|---|---|---|---|---|---|---|---|---|
| **UTILITIES** | | | | | | | | |
| Pac Bell | 07/02 | 7.25 | AA- | 104.5898 | 5.99 | +0.04 | -0.21 | +0.92 |
| NY Tel | 08/25 | 7.00 | A+ | 100.2077 | 6.98 | +0.06 | +0.02 | +1.56 |
| CWE | 05/08 | 8.00 | BBB | 111.8286 | 6.34 | +0.04 | -0.12 | +1.18 |
| **FINANCIALS** | | | | | | | | |
| GECC | 05/07 | 8.75 | AAA | 118.2021 | 6.03 | - | +0.01 | +0.84 |
| Banc One | 08/02 | 7.25 | A+ | 104.5466 | 5.93 | - | -0.22 | +0.87 |
| US West | 01/07 | 7.50 | BBB | 105.5437 | 6.44 | - | +0.26 | +0.96 |
| **INDUSTRIALS** | | | | | | | | |
| WMX Tech | 04/99 | 6.25 | BBB+ | 100.1144 | 6.03 | -0.01 | -0.09 | +1.18 |
| Wal Mart | 05/02 | 6.75 | AA | 104.0313 | 5.62 | -0.06 | -0.42 | +0.48 |
| Dayton Hud | 08/21 | 9.70 | BBB+ | 134.2900 | 6.73 | - | +0.02 | +1.31 |
| **AGENCIES** | | | | | | | | |
| FHLMC | 04/07 | 7.14 | N/A | 110.6137 | 5.67 | -0.03 | -0.23 | +0.38 |
| SLMA | 03/00 | 7.50 | N/A | 103.0176 | 5.41 | -0.05 | -0.26 | +0.30 |
| FNMA | 02/18 | 8.95 | N/A | 125.2008 | 5.88 | +0.02 | -0.12 | +0.46 |
| FFCB | 08/08 | 8.95 | N/A | 121.2082 | 5.54 | -0.04 | -0.23 | +0.35 |
| **HIGH YIELD** | | | | | | | | |
| Stone Cont | 02/01 | 9.88 | B | 98.5000 | 0.00 | - | - | - |
| AK Stl | 12/01 | 9.13 | BB- | 102.2500 | 0.00 | - | - | - |
| Pacotta | 06/04 | 10.75 | B- | 96.0000 | 0.00 | - | - | - |

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information.

### US INTEREST RATES

| Latest | | Treasury Bills and Bond Yields | | | |
|---|---|---|---|---|---|
| Prime rate | 8½ | One month | - | Two year | 4.99 |
| Broker loan rate | 7¾ | Two month | - | Three year | 4.95 |
| Fed.funds | 5⅝ | Three month | 5.00 | Five year | 4.98 |
| Fed.funds at intervention | - | Six month | 5.06 | 10-year | 5.12 |
| | | One year | 5.03 | 30-year | 5.38 |

### INTERNATIONAL BONDS

| Aug 27 | Red date | Coupon | S & P Rating | Bid price | Bid yld | Day's chge yld | Mth's chge yld | Spread v Govts |
|---|---|---|---|---|---|---|---|---|
| **[illegible]** | | | | | | | | |
| EIB | 02/07 | 5.750 | AAA | 108.8800 | 4.46 | -0.07 | -0.34 | +0.34 |
| Spain | 01/07 | 5.750 | AA | 108.4600 | 4.51 | -0.08 | -0.31 | +0.39 |
| Philip Morris | 03/04 | 5.375 | A | 102.3200 | 4.86 | -0.01 | -0.13 | +0.88 |
| Finland FRN | 09/02 | 3.829 | AA | 100.6714 | 3.31 | -0.04 | -0.46 | -0.46 |
| **[illegible]** | | | | | | | | |
| Austria | 01/04 | 5.500 | AAA | 108.4700 | 4.13 | -0.07 | -0.35 | +0.13 |
| Abbey Nat | 02/04 | 6.000 | AA | 108.7600 | 4.17 | -0.09 | -0.42 | +0.17 |
| Cred Foncier | 02/04 | 9.125 | A | 122.5100 | 4.40 | -0.08 | -0.39 | +0.40 |
| SCF FRN | 12/01 | 3.635 | AA- | 99.8732 | 3.86 | -0.06 | -0.38 | -0.14 |
| **[illegible]** | | | | | | | | |
| EIB | 02/07 | 7.000 | AAA | 116.3500 | 4.62 | -0.01 | -0.24 | - |
| Abbey Nat | 03/02 | 6.800 | AA | 107.8200 | 4.31 | -0.02 | -0.30 | +0.09 |
| Walt Disney | 08/00 | 8.625 | A | 107.3300 | 4.30 | -0.05 | -0.27 | +0.12 |
| EIB FRN | 03/01 | 4.992 | AAA | 100.0065 | 3.95 | -0.01 | -0.28 | -0.19 |
| **[illegible]** | | | | | | | | |
| EIB | 12/07 | 7.625 | AAA | 112.0011 | 5.90 | -0.04 | -0.30 | +0.54 |
| Dresdner Bk | 12/07 | 7.750 | AA- | 110.1226 | 6.27 | -0.16 | -0.47 | +0.91 |
| British Gas | 03/00 | 7.625 | A+ | 100.6522 | 7.13 | -0.11 | -0.46 | +0.70 |
| Abbey Nat FRN | 02/02 | 7.900 | AA | 100.1663 | 5.00 | -0.09 | -0.47 | +0.03 |
| **[illegible]** | | | | | | | | |
| EIB | 04/07 | 7.250 | AAA | 111.0227 | 5.60 | -0.21 | -0.29 | +0.61 |
| ABN Amro | 06/07 | 7.125 | n/a | 109.5973 | 5.65 | -0.22 | -0.57 | +0.77 |
| Quebec | 01/07 | 7.000 | A+ | 108.6562 | 5.69 | -0.18 | -0.57 | +0.80 |
| Citicorp FRN | 02/04 | 8.760 | A+ | 101.4149 | 5.14 | -0.14 | -0.52 | +0.16 |
| **[illegible]** | | | | | | | | |
| Bayer L-Bk | 08/04 | 9.500 | AAA | 114.3904 | 8.51 | +0.36 | +0.65 | +0.20 |
| Toronto | 05/04 | 8.500 | AA+ | 109.6243 | 8.43 | +0.36 | +0.61 | +0.12 |
| Bell Canada | 07/99 | 10.625 | A+ | 103.2457 | 6.60 | +0.70 | +0.83 | +0.98 |
| Desjardins G FRN | 09/02 | 5.875 | AAA | 98.9284 | 6.18 | +0.16 | +0.39 | -0.16 |
| **[illegible]** | | | | | | | | |
| World Bank | 03/02 | 5.250 | AAA | 115.6555 | 0.77 | - | -0.13 | -0.02 |
| Spain | 03/02 | 5.750 | AA | 117.5369 | 0.74 | - | -0.12 | -0.05 |
| Cred Foncier | 03/02 | 4.750 | A | 113.4571 | 1.23 | - | -0.13 | +0.44 |
| Italy FRN | 07/99 | 0.727 | AA | 100.2552 | 0.14 | - | -0.02 | -0.28 |

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

## UK BONDS

### FTSE Actuaries Govt. Securities

[illegible]

### UK Indices

[illegible]

### FT Fixed Interest Indices

[illegible]

## UK GILTS PRICES

[illegible]

### Other Fixed Interest

[illegible]

CURRENCIES & MONEY

# Investors desert the high-yielders

**MARKETS REPORT**

By Simon Kuper

The collapse of dozens of currencies continued yesterday. The Russian, Australian, Canadian, Norwegian, Swedish, Greek and central European currencies slumped further as investors pulled their money out of high-yielding assets of every kind. The latest round of turmoil began last week, when Russia's devaluation of the rouble followed a revival in the Asian financial crisis and a fall in commodity prices. Russia yesterday indefinitely suspended trading in the rouble on the Moscow Interbank Currency Exchange.

However, foreign exchange strategists said that investors' panic had become indiscriminate, dragging many currencies down far further than economic fundamentals warranted. Michael Rosenberg, global head of fixed-income research at Merrill Lynch in New York, said: "This is something unbelievable. I think Australia is a screaming buy and Canadian assets are a buy, if you are willing to hold out and ride the waves. Because these are big waves - like Hurricane Barney."

He expected the stricken currencies to fall further before they rallied. "He who keeps his head when everyone else is losing theirs, hasn't heard the bad news yet," he said.

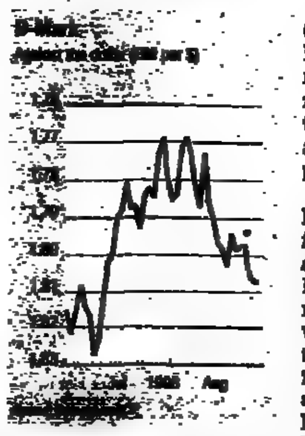
Some victim countries – such as Greece, Sweden and Denmark – are neither in Asia nor closely tied to Russia nor heavy exporters of commodities. Their suffering yesterday seemed to bear out the theory of Avinash Persaud, head of global foreign exchange research at J.P. Morgan in London, who says that all high-yielding assets fall together when investors' appetite for risk shrinks in times of global panic.

■ If Mars had a currency it would be booming now, with the 10,000 light-year bond a particular draw to investors escaping the global market turmoil. But there were few obvious safe havens on earth yesterday.

The dollar, traditionally the first choice, was held back by the plunge on Wall Street. The currency fell Y2 against the yen to close in London at Y142.7 and merely held steady against the D-Mark at DM1.808.

The Japanese currency benefited as investors deserted high-yielding assets that they had funded with sales of yen. Eisuke Sakakibara, the senior finance ministry, also helped with new explicit threats to intervene for the yen. But with Japan's economy so shaky, few consider it a safe haven.

The pound laid stronger claim to that status. It rose because it is seen as relatively disconnected from Russia and Asia. In times like these, investors are hardly taking fright at forecasts of slowing growth in the UK economy. The Swiss franc also profited yesterday.



■ The Norwegian, Australian and Canadian economies are hardly disaster-zones. But all three countries export commodities, and so their currencies plunged yesterday.

The Norwegian krone fell harder than anyone had foreseen, from NKr4.429 against the D-Mark to NKr4.636. Norges Bank signalled on Monday that it would stop trying to keep the krone stable, and the fall in the price of oil – which accounts for 40 per cent of Norwegian exports – has hardly helped either.

The Canadian dollar recorded an all-time low yet again, falling another 2 cents to C$1.581 against the US dollar even though the Bank of Canada raised interest rates by 1 percentage point. The bank rate rose from 5 per cent to 6 per cent, taking Canadian rates above US levels for the first time since 1996. The Bank of England was also said to have intervened for the Canadian dollar yesterday on behalf of the Bank of Canada.

ABN-Amro said that at a time of global panic a rate rise could do a currency no good. "Quite extraordinary really," was its comment on the Bank of Canada's move.

Commodities make up about 60 per cent of Australian exports, so the Australian dollar is a sick dingo. The Federal Reserve intervened for it yesterday on behalf of the Reserve Bank of Australia, yet the currency also hit a new all-time low. In late trading it was at $0.555 to the US dollar, more than a cent below Wednesday's previous record low.

■ POUND IN NEW YORK

| Aug 27 | — Latest — | — Prev. close — |
|---|---|---|
| £ spot | 1.6485 | 1.6375 |
| 1 mth | 1.6468 | 1.6345 |
| 3 mth | 1.6415 | 1.6290 |
| 1 yr | 1.6213 | 1.6080 |

■ OTHER CURRENCIES

| Aug 27 | £ | $ |
|---|---|---|
| Czech Rp | 55.0880 - 55.1682 | 33.4150 - 33.5150 |
| Hungary | 275.716 - 276.074 | [illegible] |
| Iran | [illegible] | [illegible] |
| Kuwait | 0.5000 - 0.5008 | 0.3024 - 0.3026 |
| Peru | 4.9301 - 4.9436 | 2.9970 - 3.0010 |
| Poland | [illegible] | [illegible] |
| Russia | [illegible] | [illegible] |
| U.A.E. | 6.0405 - 6.0494 | 3.6725 - 3.6730 |

## POUND SPOT FORWARD AGAINST THE POUND

[illegible]

## DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

## WORLD INTEREST RATES

### MONEY RATES

[illegible]

### EURO CURRENCY INTEREST RATES

[illegible]

## CROSS RATES AND DERIVATIVES

### EXCHANGE CROSS RATES

[illegible]

## UK INTEREST RATES

### LONDON MONEY RATES

[illegible]

### EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

### BASE LENDING RATES

[illegible]

# Indian, Bangladeshi farmers grow less jute

By Kunal Bose in Calcutta

India and Bangladesh, the world's two largest producers of jute, are harvesting a poor crop this season (from July 1998 to June 1999) against record production last year.

More than 5m farmers engaged in jute cultivation in the two countries committed 30 per cent less land to the crop for 1998-99 as jute fetched very poor prices last year.

"The weather was once again excellent for growing jute in India and Bangladesh. But the angry farmers are registering their protest by growing substantially less jute this season," said Nathmal Jhanwar, president of the Indian Jute Balers Association.

Prices of jute, particularly of the superior grades, will rise sharply as the current season progresses, he said.

According to trade officials, the Indian jute crop is expected to fall to 7.5m bales of 180 kg each from 10.7m bales last year.

"In this estimate, we have not factored in the possible loss of crops due to floods in the jute growing centres of Assam and West Bengal," said Mr Jhanwar.

The industry has, however, forecast a bigger crop of 8m bales. The Indian jute mills, which depend largely on Bangladesh for top quality jute, are concerned that the crop in the neighbouring country will be less than 5m bales, against last year's record 6.3m bales.

"We imported 325,694 bales of jute from Bangladesh in 1997-98. However, China and Pakistan both buy a lot more jute from Bangladesh than we do," said a spokesman for the Indian Jute Mills Association.

"We will not find it easy to import jute from Bangladesh this year even though our requirement will be higher," he added.

Last year's record crop and lower demand for jute from its local mills enabled Bangladesh to lift exports to 2.4m bales, from 2m bales in 1996-97.

"China, which is gradually releasing land from jute to other crops, is sourcing the material from Bangladesh to keep its jute factories running. Chinese imports rose 123,000 bales to 748,000 bales last year. Pakistan also lifted imports, from 480,000 bales to 721,000 bales.

"There will be a big scramble for Bangladeshi jute this time," said Sushil Kariwala, vice-president of Birla International, one of India's largest jute groups.

The quality of Indian jute is better this year as the rivers and canals are full of water to allow proper retting of fibre. Even then, the Indian factories producing light jute yarns and fabrics for the European and US markets will face shortage of raw material.

# Commodity price index at 21-year low

MARKETS REPORT

By Gary Mead

A sense of *fin de siecle* crisis hung over many commodity markets yesterday, symbolised by the Chicago-based Commodity Research Bureau index of 17 leading commodity prices falling to a 21-year low of 196.08 points, though the index has been reweighted several times since the last nadir of December 1977.

Meanwhile, commodity specialists everywhere searched in vain for an obvious way out of the Russian crisis, which has begun to affect various markets.

In crude oil markets dealers were aware that Russia may attempt to buy its way out of the crisis by exporting more barrels in the search for US dollars.

Russia's long-standing unofficial policy has been to maximise its oil output, and the cutting-off of access to foreign investment may mean in the medium term it pumps less, not more oil.

However, in the short term it is bound to seek to increase exports, adding to the glut that has produced a crash in oil prices of more than 30 per cent this year.

Oil stocks in OECD countries are now 210m barrels bigger than at this time last year. At the same time, compliance with the promised cuts by the Organisation of Petroleum Exporting Countries seems to be very slack.

According to the latest analysis from Merrill Lynch, "the promised reductions are totalling just one out of every two promised barrels".

On the International Petroleum Exchange, October dated Brent was $12.12 a barrel in late trading, down 38 cents from the previous closing price.

On New York's Mercantile Exchange the mood was even more bearish: Nymex October crude was down 49 cents to $13.09 a barrel in early trading.

The London afternoon gold "fix" yesterday was down to an 18½-year low at $278.50 per troy ounce, against $280.90 in the morning, partly on growing suspicions in the market that Russia is increasingly using its reserves in swap deals.

Some analysts suggest Russia may have lent as much as 200 tonnes of its 520 tonnes of reserves in the form of swaps with Swiss, US and German banks.

The Association of Russian Banks yesterday proposed easing the regulations on purchasing gold, enabling the public to buy the precious metal as an alternative to foreign currency.

"We must create an infrastructure for the population to buy not only dollars ... but gold," said Sergei Yegorov, ARB president.

Buyers of gold from commercial banks face VAT of 20 per cent, while the price of gold is established by the central bank at 1 per cent over the London daily fixes.

On the London Metal Exchange the recent neutral trend persisted, with only three-month nickel registering much movement, closing $90 lower at $4,080 a tonne.

The mood was also quiescent on the London International Financial Futures Exchange, where cocoa and coffee futures again made little ground. Also on Liffe October white sugar fell to its lowest since February 1988, at $277 a tonne.

The International Grains Council said the world faced another bumper wheat crop, of an estimated 593m tonnes, in 1998. Prices fell again on all commodities markets.

# Geologist taps a rich silver seam

The discovery of possibly the most important deposit in a generation is set to revitalise mining activity in one of the poorest regions of Bolivia, writes **Kenneth Gooding**

Larry Buchanan was high up in the Andes, eating his supper near a camp fire and watching the sun go down. In the distance, some of the mountains turned a glorious orange in colour.

To Mr Buchanan, a geologist with 30 years' experience, this could mean only one thing – the mountains had been "altered" in that area, in other words they might have become injected with a mineral worth mining.

With some colleagues the next day – and not without difficulty because this was 14,000 feet, or 4,200 metres, up in the Andes – he hiked several kilometres to take geological samples.

Every single one showed substantial traces of silver.

That was in 1996. Now Mr Buchanan's discovery, possibly the most important silver deposit in a generation, is to become the world's fourth largest silver mine, a substantial zinc producer, and is set to revitalise mining activity in Bolivia.

This land-locked South American country, which stretches from the high Andes to the Amazonian jungles, has been closely associated with silver production for most of its history. But a long period of low silver prices and a lack of investment in exploration in recent years has seen output fall steeply.

Bolivia was also badly affected by the collapse in tin prices during the early 1980s. Even so, mining continues to provide its main source of foreign exchange and employment. Bolivia exported minerals worth $519m last year, representing 43 per cent of total export earnings.

Mr Buchanan's discovery is in one of the country's poorest and most depressed regions, the San Cristobal district about 500km south of the capital La Paz. In the past 400 years an estimated 60m troy ounces of silver have been mined in the area.

Old-time miners missed the silver discovered by Mr Buchanan and his colleagues because it is finely disseminated through the ore rather than visible in nuggets.

Now Apex Silver, the company where Mr Buchanan is chief geologist, is preparing to spend more than $300m to bring the San Cristobal mine into production. Construction is expected to start next year and production in 2001. Annual output is expected to average 14m ounces of silver, 132,700 tonnes of zinc and 39,500 tonnes of lead.

Before joining Apex Mr Buchanan was already well known in the mining industry as author of the "Buchanan model" for the identification of epithermal deposits – those on or just below the surface close to ancient vents or volcanoes and formed at low temperature and pressure. The San Cristobal deposit is in the throat of a volcano that became extinct 10m years ago.

He was recruited by Thomas Kaplan, Apex founder, chairman and main shareholder, an American who came to mining via a circuitous route.

After gaining a history degree at Oxford University in England, for his doctorate Mr Kaplan focused on the UK government's strategy in south-east Asia. He says this sharpened his appreciation of history and cycles, which he later turned to good effect when working as a consultant for big financial institutions and investment funds.

He used strategic forecasting, a method of financial analysis that relies on historical trends, to gain insight into future economic movements. He says this worked particularly well for emerging market economies because of their more pronounced economic cycles.

"I made my name by being bullish on Hong Kong after Tiananmen Square at the risk of appearing mercenary, and I was very fortunate in being able to forecast the Iraqi invasion of Kuwait," he says. In both these cases there was profit to be made in equity markets.

In 1993 Mr Kaplan turned his attention to commodity markets and concluded that silver was ready to recover from its depressed state.

However, there were few silver producers whose shares seemed worth buying, so he set up his own company, Apex, with the ambition of turning it into the world's premier silver company.

He began be recruiting knowledgeable mining people. Apart from Mr Buchanan, there is Keith Hulley, from Australia's WMC, as president and chief operating officer, and Mac DeGuire, who came from Newmont Mining, as vice-president, development.

Mr Buchanan started by laboriously reviewing thousands of property files, searching for potential purchases. It was during a visit to an old silver mine, which he concluded was too far gone to be worth buying, that he saw the orange glow at sunset that led him to San Cristobal.

Mr Kaplan was lucky to receive financial backing from George Soros, the high-profile financier, who also takes a long-term positive view about silver's prospects.

The initial investment came in December 1994 from private companies controlled by Mr Soros, his brother Paul, and others. When Apex listed on the American Stock Exchange in November last year, the Soros group bought more shares and now owns 25 per cent.

Paul Soros and two other Soros representatives are on the board. Mr Kaplan has 25.5 per cent of Apex. In total, management and institutional shareholders control 80 per cent of the company, which means that Apex shares have only limited liquidity.

This might change when Apex raises funds to construct San Cristobal. Asked how much shareholders will be asked to provide, Mr Kaplan says this will depend on market conditions at the time. Debt could cover as much as 80 per cent, he points out. Apex has retained N.M. Rothschild as project finance adviser and Barclays will provide project finance.

No one doubts that one way or another, the money will be provided for San Cristobal – the biggest single mining investment in Bolivia's modern history.


## COMMODITIES PRICES

### BASE METALS

#### LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1316-17 | 1336-37 |
| Previous | 1322.5-3.5 | 1344-4.5 |
| High/low | | 1347/1335 |
| AM Official | 1319-9.5 | 1339.5-40.0 |
| Kerb close | | 1339-39.5 |
| Open int. | n/a | |
| Total daily turnover | n/a | |

■ ALUMINIUM ALLOY ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1145-55 | 1165-69 |
| Previous | 1150-55 | 1172-5 |
| High/low | | 1180/1163 |
| AM Official | 1149-50 | 1165-6 |
| Kerb close | | 1165-68 |
| Open int. | n/a | |
| Total daily turnover | n/a | |

■ LEAD ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 526-7 | 536-7 |
| Previous | 525.5-6.5 | 535.5-6.0 |
| High/low | | 538/535 |
| AM Official | 526.5-7.0 | 537-7.5 |
| Kerb close | | 535-6 |
| Open int. | n/a | |
| Total daily turnover | n/a | |

■ NICKEL ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 4075-85 | 4135-40 |
| Previous | 4070-80 | 4135-40 |
| High/low | | 4200/4080 |
| AM Official | 4115-25 | 4175-80 |
| Kerb close | | 4080-90 |
| Open int. | n/a | |
| Total daily turnover | n/a | |

■ TIN ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 5595-605 | 5465-80 |
| Previous | 5595-605 | 5450-60 |
| High/low | | 5490/5460 |
| AM Official | 5600-10 | 5475-80 |
| Kerb close | | 5490-95 |
| Open int. | n/a | |
| Total daily turnover | n/a | |

■ ZINC, special high grade ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1006.5-07.5 | 1027-28 |
| Previous | 1015.5-6.5 | 1037-8 |
| High/low | | 1041/1025 |
| AM Official | 1016-6.5 | 1036-7 |
| Kerb close | | 1027-28 |
| Open int. | n/a | |
| Total daily turnover | n/a | |

■ COPPER, grade A ($ per tonne)

| | Cash | 3 mths |
|---|---|---|
| Close | 1624-25 | 1625-26 |
| Previous | 1622-3 | 1631-2 |
| High/low | | 1643/1621 |
| AM Official | 1635-6 | 1639-40 |
| Kerb close | | 1631-32 |
| Open int. | n/a | |
| Total daily turnover | n/a | |

■ LME AM Official £/$ rate: 1.6491

LME Closing £/$ rate: 1.6475

Spot: 1.6510 3 mths: 1.6433 6 mths: 1.6367 9 mths: 1.6299

■ HIGH GRADE COPPER (COMEX)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 73.80 | +0.45 | 74.30 | 73.30 | 248 | 425 |
| Sep | 73.95 | +0.55 | 74.20 | 72.70 | 3,634 | 12,297 |
| Oct | 73.90 | +0.40 | 74.05 | 73.05 | 235 | 2,543 |
| Nov | 74.00 | +0.40 | 74.00 | 73.90 | 19 | 1,697 |
| Dec | 74.10 | +0.40 | 74.30 | 72.80 | 4,004 | 25,479 |
| Jan | 74.30 | +0.40 | 74.10 | 73.90 | 6 | 1,949 |
| Total | | | | | 8,866 | 62,344 |

### PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

| Gold(Troy oz) | $ price | £ equiv | SFr equiv |
|---|---|---|---|
| Close | 278.60-279.10 | | |
| Opening | 281.00-281.40 | | |
| Morning fix | 280.90 | 170.69 | 421.35 |
| Afternoon fix | 278.50 | 168.72 | 416.86 |
| Day's High | 281.60-282.00 | | |
| Day's Low | 277.00-277.40 | | |
| Previous close | 283.50-284.00 | | |

Loco Ldn Mean Gold Lending Rates (Vs US$)

| | | | |
|---|---|---|---|
| 1 month | 5.12 | 6 months | 4.38 |
| 2 months | 5.02 | 12 months | 4.13 |
| 3 months | 4.92 | | |

| Silver Fix | p/troy oz. | US cts equiv. |
|---|---|---|
| Spot | 301.88 | 497.50 |

Silver Lending Rates

| | | | |
|---|---|---|---|
| 1 month | 3.60 | 6 months | 1.95 |
| 2 months | 3.15 | 12 months | 1.60 |
| 3 months | 2.95 | | |

| Gold Coins | $ price | £ equiv |
|---|---|---|
| Krugerrand | 284-288 | 172-175 |
| New Sovereign | 66-70 | 40-43 |

### Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 276.7 | -5.5 | 281.0 | 277.0 | 28 | 48 |
| Oct | 277.5 | -5.8 | 283.1 | 277.0 | 1,336 | 12,036 |
| Dec | 280.1 | -5.8 | 285.8 | 280.0 | 40,100 | 107.7k |
| Feb | 281.9 | -5.8 | 287.1 | 281.5 | 32 | 13,621 |
| Apr | 283.8 | -5.8 | 288.0 | 284.8 | 11 | 10,944 |
| Jun | 285.7 | -5.8 | 290.0 | 286.0 | 172 | 14,839 |
| Total | | | | | 49,079 | 188,880 |

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 354.7 | -7.3 | 360.0 | 353.2 | 2,186 | 9,148 |
| Jan | 355.2 | -7.3 | 359.0 | 353.5 | 97 | 1,103 |
| Apr | 355.2 | -7.3 | - | - | - | 22 |
| Jul | 355.2 | -7.3 | - | - | - | 16 |
| Total | | | | | 2,285 | 10,389 |

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 275.15 | -7.25 | 279.00 | 273.00 | 406 | 7,043 |
| Dec | 271.85 | -8.25 | 276.00 | 271.00 | 212 | 1,946 |
| Mar | 268.85 | -8.25 | - | - | - | 25 |
| Total | | | | | 618 | 9,014 |

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 488.5 | -11.0 | 498.5 | 484.0 | 20,114 | 20,858 |
| Dec | 490.1 | -10.9 | 503.0 | 487.0 | 11,527 | 45,577 |
| Jan | 491.9 | -10.9 | 495.0 | 495.0 | 18 | 35 |
| Mar | 493.2 | -10.8 | 502.0 | 492.0 | 223 | 7,732 |
| May | 495.2 | -10.7 | 498.0 | 498.0 | 248 | 1,815 |
| Jul | 497.3 | -10.6 | 500.5 | 500.0 | 14 | 2,336 |
| Total | | | | | 32,204 | 84,284 |

### ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 13.05 | -0.53 | 13.60 | 13.01 | 45,185 | 125.5k |
| Nov | 13.30 | -0.50 | 13.84 | 13.30 | 15,108 | 44,859 |
| Dec | 13.65 | -0.43 | 14.10 | 13.61 | 8,513 | 63,304 |
| Jan | 13.98 | -0.35 | 14.20 | 13.95 | 4,038 | 35,376 |
| Feb | 14.20 | -0.37 | 14.40 | 14.20 | 1,136 | 18,085 |
| Mar | 14.46 | -0.32 | 14.60 | 14.40 | 1,039 | 15,163 |
| Total | | | | | 89,738 | 477,877 |

■ CRUDE OIL IPE ($/barrel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 12.05 | -0.45 | 12.48 | 12.02 | 25,385 | 79,218 |
| Nov | 12.33 | -0.46 | 12.74 | 12.31 | 6,094 | 31,903 |
| Dec | 12.67 | -0.38 | 12.99 | 12.63 | 4,670 | 39,992 |
| Jan | 12.83 | -0.39 | 13.14 | 12.83 | 682 | 28,875 |
| Feb | 13.28 | -0.11 | 13.32 | 13.28 | 437 | 10,855 |
| Mar | 13.16 | -0.41 | 13.48 | 13.16 | 218 | 10,123 |
| Total | | | | | n/a | n/a |

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 34.20 | -1.04 | 35.30 | 34.05 | 12,146 | 18,557 |
| Oct | 35.10 | -1.10 | 36.30 | 34.85 | 10,279 | 49,006 |
| Nov | 36.40 | -1.12 | 37.60 | 36.40 | 2,679 | 18,945 |
| Dec | 37.90 | -1.07 | 39.00 | 37.90 | 2,526 | 24,919 |
| Jan | 39.30 | -0.97 | 40.35 | 39.30 | 1,413 | 25,199 |
| Feb | 40.60 | -0.62 | 41.00 | 40.40 | 1,019 | 16,585 |
| Total | | | | | 31,798 | 201,504 |

■ GAS OIL IPE ($/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 103.00 | -1.25 | 104.75 | 102.00 | 5,432 | 29,673 |
| Oct | 107.50 | -1.25 | 109.25 | 106.50 | 6,726 | 32,466 |
| Nov | 111.25 | -1.75 | 112.75 | 110.50 | 2,351 | 18,387 |
| Dec | 114.50 | -2.00 | 116.50 | 113.75 | 3,999 | 40,872 |
| Jan | 117.50 | -1.75 | 119.25 | 117.25 | 1,199 | 14,905 |
| Feb | 120.25 | -1.75 | 121.75 | 120.00 | 452 | 12,455 |
| Total | | | | | 21,846 | 179,082 |

■ NATURAL GAS IPE (1,000 therms; pence per therm)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 11.930 | +0.020 | 11.950 | 11.880 | 290 | 3,235 |
| Oct | 12.290 | +0.060 | 12.290 | 12.210 | 125 | 3,965 |
| Total | | | | | 535 | 28,918 |

■ NATURAL GAS NYMEX (10,000 mmBtu; $/mmBtu.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 1.710 | -0.052 | 1.784 | 1.695 | 43,114 | 25,841 |
| Oct | 1.730 | -0.060 | 1.790 | 1.720 | 24,201 | 50,495 |
| Nov | 1.995 | -0.047 | 2.050 | 1.990 | 7,288 | 27,176 |
| Dec | 2.275 | -0.030 | 2.311 | 2.260 | 5,943 | 29,106 |
| Jan | 2.395 | -0.037 | 2.436 | 2.385 | 4,467 | 29,679 |
| Feb | 2.355 | -0.025 | 2.395 | 2.340 | 3,253 | 17,588 |
| Total | | | | | 93,732 | 277,912 |

■ UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

| | Latest price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 39.80 | -0.80 | 40.70 | 39.60 | 13,189 | 23,819 |
| Oct | 39.45 | -1.02 | 40.60 | 39.30 | 13,477 | 38,251 |
| Nov | 40.10 | -1.05 | 40.75 | 40.10 | 2,396 | 8,538 |
| Dec | 41.00 | -1.00 | 41.70 | 40.90 | 1,920 | 7,922 |
| Jan | 41.80 | -1.05 | 42.20 | 42.00 | 253 | 3,798 |
| Feb | 43.25 | -0.43 | 43.10 | 43.10 | 7 | 2,006 |
| Total | | | | | 32,588 | 90,255 |

### GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 69.00 | -1.00 | 69.00 | 69.00 | 16 | 166 |
| Nov | 70.60 | -0.75 | 71.00 | 70.30 | 87 | 3,067 |
| Jan | 72.50 | -0.60 | 72.75 | 72.35 | 101 | 2,160 |
| Mar | 74.25 | -0.60 | 74.50 | 74.00 | 48 | 1,321 |
| May | 75.25 | -1.50 | 76.25 | 75.90 | 47 | 1,060 |
| Total | | | | | 308 | 7,832 |

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 243.75 | -1.50 | 245.75 | 240.50 | 4,784 | 19,739 |
| Dec | 261.00 | -1.25 | 263.50 | 257.50 | 14,459 | 71,501 |
| Mar | 276.75 | -1.50 | 278.50 | 273.50 | 1,871 | 21,608 |
| May | 286.50 | -1.00 | 288.00 | 284.00 | 339 | 4,082 |
| Jul | 296.75 | -1.75 | 298.00 | 294.50 | 1,100 | 6,757 |
| Sep | 308.00 | -1.00 | - | - | 23 | 362 |
| Total | | | | | 22,533 | 128,092 |

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 195.50 | -2.75 | 198.25 | 193.25 | 19,866 | 40,239 |
| Dec | 206.50 | -2.25 | 208.75 | 204.25 | 52,428 | 173,409 |
| Mar | 218.75 | -2.25 | 220.75 | 216.00 | 8,968 | 51,081 |
| May | 226.25 | -2.25 | 228.00 | 223.75 | 3,905 | 17,985 |
| Jul | 231.75 | -2.25 | 234.00 | 229.25 | 4,316 | 23,583 |
| Sep | 237.25 | -1.75 | 238.50 | 234.75 | 808 | 3,933 |
| Total | | | | | 91,135 | 329,769 |

■ BARLEY LIFFE (100 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 67.00 | +0.40 | - | - | - | 6 |
| Nov | 69.45 | -0.10 | 69.45 | 69.45 | 9 | 880 |
| Jan | 71.50 | -0.25 | 71.50 | 71.50 | 5 | 414 |
| Mar | 73.40 | -0.25 | - | - | - | 60 |
| May | 74.50 | -0.25 | - | - | - | 33 |
| Total | | | | | 14 | 1,393 |

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 527.00 | -4.25 | 529.50 | 520.00 | 5,403 | 8,334 |
| Nov | 520.25 | -3.25 | 524.50 | 514.50 | 31,497 | 88,739 |
| Jan | 529.75 | -3.50 | 533.25 | 523.50 | 2,992 | 17,638 |
| Mar | 539.50 | -4.00 | 542.50 | 534.00 | 819 | 12,775 |
| May | 547.75 | -4.50 | 551.00 | 543.25 | 533 | 4,445 |
| Jul | 557.75 | -4.25 | 561.00 | 553.00 | 1,267 | 7,172 |
| Total | | | | | 42,713 | 142,517 |

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 23.68 | -0.13 | 23.80 | 23.32 | 8,103 | 15,074 |
| Oct | 23.84 | -0.15 | 23.97 | 23.50 | 5,373 | 21,590 |
| Dec | 24.05 | -0.10 | 24.15 | 23.67 | 12,070 | 47,655 |
| Jan | 24.10 | -0.08 | 24.10 | 23.73 | 1,147 | 7,225 |
| Mar | 24.15 | -0.10 | 24.20 | 23.80 | 958 | 10,233 |
| May | 24.14 | -0.11 | 24.15 | 23.80 | 652 | 3,603 |
| Total | | | | | 28,659 | 111,481 |

■ SOYABEAN MEAL CBT (100 tons; $/ton)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 133.2 | +1.1 | 135.5 | 133.2 | 8,127 | 17,544 |
| Oct | 133.3 | -0.8 | 133.5 | 131.0 | 4,987 | 24,131 |
| Dec | 134.2 | -0.7 | 134.7 | 133.0 | 8,917 | 63,215 |
| Jan | 136.1 | -0.9 | 137.0 | 135.0 | 1,798 | 11,952 |
| Mar | 139.7 | -1.1 | 140.5 | 139.0 | 1,788 | 10,683 |
| May | 143.0 | -1.5 | 144.5 | 142.8 | 1,510 | 4,878 |
| Total | | | | | 26,061 | 138,667 |

■ POTATOES LIFFE (20 tonnes; £ per tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Nov | 80.0 | - | - | - | - | 3 |
| Mar | 115.0 | - | - | - | - | - |
| Apr | 168.5 | +0.5 | 169.5 | 168.0 | 67 | 2,249 |
| May | 179.5 | +0.5 | - | - | - | 29 |
| Jun | 189.5 | +0.5 | - | - | - | - |
| Total | | | | | 67 | 2,248 |

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 814 | - | - | - | - | 190 |
| Oct | 910 | -10 | - | - | - | 456 |
| Jan | 950 | -15 | 950 | 950 | 1 | 393 |
| Apr | 975 | -10 | - | - | - | 201 |
| Jul | 870 | -10 | - | - | - | 200 |
| Total | | | | | 12 | 1,793 |

| | Close | Prev |
|---|---|---|
| BFI | 816 | 816 |

### PULP AND PAPER

■ PULPEX OMLX (US$, 24 air dry tons)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 421.00 | -10.00 | 428.00 | 419.50 | 48 | 299 |
| Dec | 464.00 | -2.50 | 464.00 | 462.00 | 15 | 254 |
| Total | | | | | 63 | 629 |

FUTURES DATA

*All futures data supplied by CMS.*

### SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 1036 | +2 | 1039 | 1028 | 8,259 | 12,646 |
| Dec | 1072 | +1 | 1077 | 1064 | 8,968 | 56,507 |
| Mar | 1099 | +1 | 1102 | 1089 | 1,076 | 42,218 |
| May | 1116 | - | 1118 | 1109 | 248 | 14,677 |
| Jul | 1130 | +2 | 1132 | 1125 | 142 | 8,779 |
| Sep | 1145 | -3 | 1151 | 1145 | 588 | 26,610 |
| Total | | | | | 19,289 | 170,904 |

■ COCOA CSCE (10 tonnes; $/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 1544 | +9 | 1542 | 1528 | 31 | 1,595 |
| Dec | 1583 | +8 | 1584 | 1562 | 2,913 | 38,954 |
| Mar | 1626 | +11 | 1627 | 1606 | 636 | 15,933 |
| May | 1653 | +10 | 1650 | 1640 | 1 | 6,034 |
| Jul | 1681 | +8 | - | - | 2 | 1,768 |
| Sep | 1710 | +8 | - | - | 20 | 1,288 |
| Total | | | | | 3,585 | 72,828 |

■ COCOA (ICCO) (SDR's/tonne)

| Aug 26 | Price | Prev. day |
|---|---|---|
| Daily | 1278.72 | 1264.68 |

■ COFFEE LIFFE (5 tonnes; $/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 1666 | +10 | 1679 | 1645 | 3,574 | 8,456 |
| Nov | 1625 | +27 | 1631 | 1605 | 3,028 | 15,611 |
| Jan | 1573 | +28 | 1580 | 1553 | 351 | 4,178 |
| Mar | 1533 | +20 | 1540 | 1525 | 442 | 2,044 |
| May | 1523 | +20 | 1530 | 1520 | 131 | 379 |
| Jul | 1523 | +20 | - | - | - | 82 |
| Total | | | | | 8,494 | 39,769 |

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 120.60 | +0.35 | 123.30 | 119.25 | 245 | 1,516 |
| Dec | 116.55 | +0.95 | 119.70 | 115.10 | 4,404 | 14,537 |
| Mar | 113.20 | +1.05 | 114.50 | 112.00 | 430 | 5,640 |
| May | 113.25 | +1.20 | 114.50 | 113.00 | 57 | 2,627 |
| Jul | 113.25 | +0.95 | 114.35 | 113.50 | 41 | 1,196 |
| Sep | 114.00 | +0.95 | 114.00 | 114.00 | 6 | 1,434 |
| Total | | | | | 5,178 | 27,847 |

■ COFFEE (ICO) (US cents/pound)

| Aug 26 | Price | Prev. day |
|---|---|---|
| Comp. daily | 99.60 | 101.35 |
| 15 day average | 100.34 | 100.74 |

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 227.9 | -1.7 | 232.5 | 227.0 | 3,364 | 21,502 |
| Dec | 227.7 | -1.7 | 232.5 | 226.6 | 1,426 | 8,988 |
| Mar | 231.6 | -2.0 | 236.5 | 231.3 | 1,171 | 13,527 |
| May | 235.5 | -2.5 | 241.0 | 235.1 | 319 | 1,965 |
| Aug | 241.0 | -1.8 | 242.2 | 241.0 | 30 | 1,255 |
| Oct | 240.8 | -1.8 | 242.0 | 242.0 | 20 | 780 |
| Total | | | | | 6,359 | 48,167 |

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 7.50 | -0.03 | 7.67 | 7.36 | 17,261 | 60,683 |
| Mar | 7.91 | -0.06 | 8.10 | 7.78 | 10,837 | 49,798 |
| May | 8.02 | -0.12 | 8.27 | 7.98 | 1,695 | 7,939 |
| Jul | 8.01 | -0.10 | 8.25 | 8.00 | [illegible] | 6,759 |
| Oct | 8.32 | -0.04 | 8.47 | 8.25 | 339 | 8,541 |
| Total | | | | | 39,998 | 180,880 |

■ COTTON NYCE (50,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 73.40 | -1.50 | 74.20 | 73.35 | 354 | 4,552 |
| Dec | 73.72 | -1.46 | 74.50 | 73.50 | 6,744 | 36,487 |
| Mar | 73.10 | -1.28 | 73.90 | 73.00 | 1,169 | 16,347 |
| May | 72.80 | -0.90 | 73.05 | 72.00 | 398 | 9,178 |
| Jul | 73.07 | -0.74 | 73.30 | 72.75 | 334 | 5,304 |
| Total | | | | | 9,248 | 81,416 |

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

| | Sett price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Sep | 113.20 | +0.55 | 114.25 | 111.80 | 2,070 | 8,907 |
| Nov | 117.15 | +0.60 | 118.30 | 115.75 | 3,021 | 11,526 |
| Jan | 120.00 | +0.60 | 121.25 | 118.80 | 667 | 4,978 |
| Mar | 123.00 | +0.60 | 123.25 | 122.20 | 335 | 2,380 |
| May | 126.00 | +0.85 | 124.50 | 124.50 | - | 731 |
| Jul | 129.00 | +1.10 | - | - | 20 | 328 |
| Total | | | | | 6,118 | 28,874 |

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

### INDICES

■ Reuters (Base: 18/9/31 = 100)

| Aug 27 | Aug 26 | month ago | year ago |
|---|---|---|---|
| 1509.7 | 1523.7 | 1545.1 | 1915.4 |

■ CRB Futures (Base: 1967 = 100)

| Aug 26 | Aug 25 | month ago | year ago |
|---|---|---|---|
| 196.12 | 199.77 | - | - |

■ GSCI Spot (Base: 1970 = 100)

| Aug 26 | Aug 25 | month ago | year ago |
|---|---|---|---|
| 139.61 | 141.02 | 145.92 | 190.92 |

LME WAREHOUSE STOCKS (tonnes)

| | | | |
|---|---|---|---|
| Aluminium | -850 | to | 456,475 |
| Aluminium alloy | +920 | to | 73,540 |
| Copper | +2,425 | to | 297,775 |
| Lead | -25 | to | 117,475 |
| Nickel | -114 | to | 58,736 |
| Zinc | -575 | to | 369,725 |
| Tin | +45 | to | 7,230 |

**Wool** from Mallett & Co

John Anderson, Australia's primary industries and energy minister, seemed to take note of those who questioned the legality of his decision to freeze stockpile sales: 16,000 bales remaining to complete the September quota will be available before the end of the month. This comes too late for those relying on the stockpile as a source of supply. The Australian market held reasonably steady this week but most prices are down again internationally. Australia's eastern market indicator closed at 563 cents a kg, down 3 cents; the New Zealand indicator was 22 cents higher at 432 cents.

### MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

| | Sett Price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Aug | 58.450 | -0.175 | 58.700 | 58.000 | 434 | 786 |
| Oct | 60.225 | +0.725 | 60.900 | 59.150 | 10,256 | 43,372 |
| Dec | 62.025 | +0.550 | 62.400 | 60.900 | 3,369 | 22,350 |
| Feb | 63.050 | +0.350 | 63.250 | 62.100 | 872 | 12,047 |
| Apr | 64.350 | +0.275 | 64.450 | 63.600 | 898 | 5,181 |
| Jun | 62.825 | +0.125 | 62.750 | 62.050 | 343 | 2,710 |
| Total | | | | | 15,999 | 87,547 |

■ LEAN HOGS CME (40,000lbs; cents/lbs)

| | Sett Price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Oct | 41.075 | -0.125 | 41.325 | 40.125 | 3,410 | 15,313 |
| Dec | 40.900 | -0.025 | 41.300 | 40.150 | 1,580 | 8,559 |
| Feb | 45.100 | - | 45.175 | 44.300 | 908 | 4,286 |
| Apr | 45.700 | +0.225 | 45.800 | 45.200 | 381 | 1,094 |
| Jun | 54.200 | +0.125 | 54.250 | 53.800 | 108 | 601 |
| Jul | 54.600 | - | 54.700 | 54.300 | 7 | 221 |
| Total | | | | | 6,374 | 30,085 |

■ PORK BELLIES CME (40,000lbs; cents/lbs)

| | Sett Price | Day's change | High | Low | Vol | Open int |
|---|---|---|---|---|---|---|
| Feb | 52.950 | +1.200 | 53.000 | 51.050 | 1,463 | 2,984 |
| Mar | 52.700 | +0.750 | 53.100 | 51.050 | 47 | 82 |
| May | 52.600 | +0.800 | 52.800 | 51.100 | 1 | 2 |
| Total | | | | | [illegible] | 3,081 |

### LONDON TRADED OPTIONS

| Strike price $ tonne | Calls | | Puts | |
|---|---|---|---|---|
| ■ ALUMINIUM (99.7%) LME | Oct | Jan | Oct | Jan |
| 1350 | n/a | | | |
| 1400 | n/a | | | |
| 1450 | n/a | | | |
| ■ COPPER (Grade A) LME | Oct | Jan | Oct | Jan |
| 1500 | n/a | | | |
| 1600 | n/a | | | |
| 1700 | n/a | | | |
| ■ COFFEE LIFFE | Sep | Nov | Sep | Nov |
| 1550 | 80 | 89 | 1 | 24 |
| 1600 | 31 | 75 | 1 | 30 |
| 1650 | 1 | 47 | 21 | 72 |
| ■ COCOA LIFFE | Sep | Dec | Sep | Dec |
| 1050 | 4 | 58 | 4 | 31 |
| 1075 | 1 | 42 | 25 | 45 |
| 1100 | 1 | 34 | 50 | 62 |
| ■ BRENT CRUDE IPE | Oct | Nov | Oct | Nov |
| 1200 | - | - | 38 | 48 |
| 1250 | 35 | - | - | 66 |
| 1300 | 16 | - | - | - |

### LONDON SPOT MARKETS

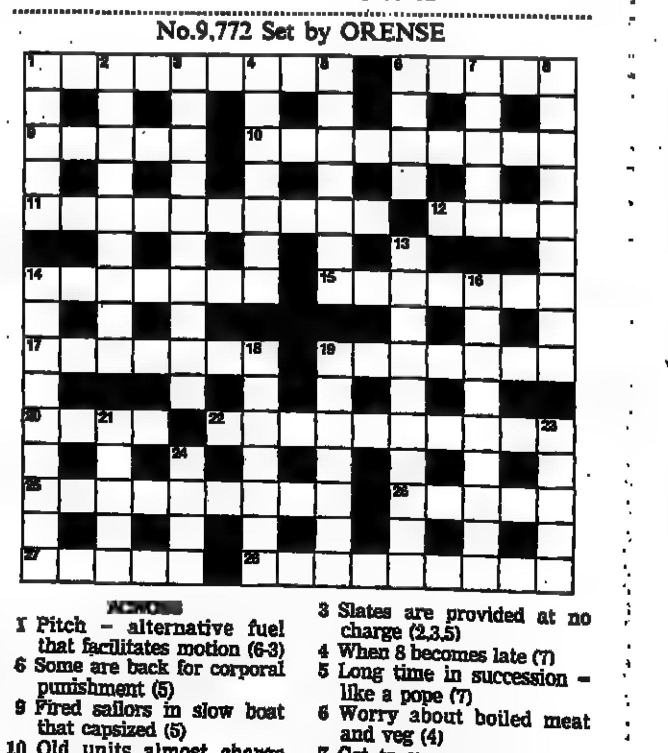
| ■ CRUDE OIL FOB (per barrel) | | +or- |
|---|---|---|
| Dubai | $12.04-2.18x | -0.395 |
| Brent Blend (dated) | $11.74-1.83 | -0.295 |
| Brent Blend (Oct) | $12.14-2.23 | -0.295 |
| W.T.I. | $13.15-3.17x | -0.38 |
| ■ OIL PRODUCTS NWE prompt delivery CIF (tonne) | | |
| Premium Gasoline | $150-153 | -4 |
| Gas Oil | $100-101 | -1 |
| Heavy Fuel Oil | $57-58 | -1 |
| Naphtha | $113-116 | -1.5 |
| Jet fuel | $121-125 | -2 |
| Diesel | $110-111 | -1 |
| ■ NATURAL GAS (Pence/therm) | | |
| Bacton (Sep) | 11.95-11.98 | +0.05 |
| *Petroleum Argus. Tel. London (0171) 359 8792* | | |
| ■ OTHER | | |
| Gold (per troy oz)♣ | $278.85 | -4.90 |
| Silver (per troy oz)♣ | 497.50c | +1.00 |
| Platinum (per troy oz.) | $369.00 | +8.00 |
| Palladium (per troy oz.) | $288.00 | +6.00 |
| Copper | 79.0c | -1.0 |
| Lead (US prod.) | 45.00c | |
| Tin (Kuala Lumpur) | 23.13r | -0.02 |
| Tin (New York) | 285.5 | -4.0 |
| Cattle (live weight) | 84.59p | * |
| Sheep (live weight) | 92.64p | * |
| Pigs (live weight)† | 41.21p | * |
| Lon. day sugar (raw) | $189.80 | -5.00 |
| Lon. day sugar (wte) | $241.50 | -0.90 |
| Barley (Eng. feed) | Unq | |
| Maize (US No3 Yellow) | £109.00 | |
| Wheat (US Dark North) | Unq | |
| Rubber (Sep)♥ | 46.00p | +0.50 |
| Rubber (Oct)♥ | 46.50p | +0.50 |
| Rubber (KL RSS No1) | 264.50m | +0.50 |
| Coconut Oil (Phil)§ | 667.5y | -2.5 |
| Palm Oil (Malay.)§ | 640.0 | -2.5 |
| Copra (Phil)§ | $412.5y | |
| Soyabeans (US) | 147.0y | -5.0 |
| Cotton Outlook 'A' Index | 68.50 | +0.05 |
| Wooltops (64s Super) | 380p | |

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Aug/Sep. x Sep. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 4h head of pigs sold.

JOTTER PAD

## CROSSWORD

No.9,772 Set by ORENSE



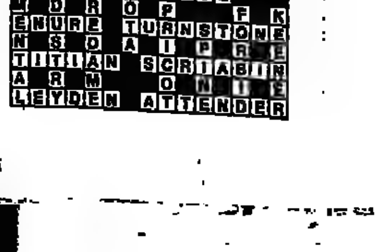
ACROSS

1 Pitch – alternative fuel that facilitates motion (6-3)
6 Some are back for corporal punishment (5)
9 Fired sailors in slow boat that capsized (5)
10 Old units almost charge clear (9)
11 It's given to bats when one ill dies from treatment (7,3)
12 Avoid minor collision – almost (4)
14 Quick swim round in turbulent sea of fat (7)
15 Feeling produced by Elgar's first movement (7)
17 Estate needs men to finish early at work (7)
19 Make them pay for identification (7)
20 Constable original of York was fake (4)
22 Analysis of fluent, absorbing picture gives satisfaction (10)
25 Immediately at home, the way a tern flies (9)
26 Material that's normally inside out and left over (5)
27 Courage of winner very much in evidence (5)
28 Feign innocence, having missed out table showing no gratitude (9)

DOWN

1 Conspiracy to have upper classes lying in state (5)
2 An element of danger must be involved with intro (9)
3 Slates are provided at no charge (2,3,5)
4 When 8 becomes late (7)
5 Long time in succession – like a pope (7)
6 Worry about boiled meat and veg (4)
7 Get to every one after the end of dinner (5)
8 A term for 16 (9)
13 Weight given by 14 down to 24 down (10)
14 100 in total dependency (9)
16 Expecting it might (and might not) be lunch on the move (2,3,4)
18 Tend to miss point after pure chaos broke out (7)
19 Tries, and keeps following high notes (7)
21 Problem's more upmarket, though not hard (5)
23 Colour of money was missing from wages (5)
24 Footballers concerned with diet (4)

Solution 9,771



# FT MANAGED FUNDS SERVICE



## OFFSHORE AND OVERSEAS

### BERMUDA (FSA RECOGNISED)

### BERMUDA (REGULATED)(**)

### GUERNSEY (REGULATED)(**)

### GUERNSEY (FSA RECOGNISED)

### IRELAND (FSA RECOGNISED)

### IRELAND (REGULATED)(**)

### ISLE OF MAN (FSA RECOGNISED)

### ISLE OF MAN (REGULATED)(**)

### JERSEY (REGULATED)(**)

### JERSEY (FSA RECOGNISED)

### LUXEMBOURG (FSA RECOGNISED)

Offshore Funds and Insurances

# FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

Aberdeen Fund Mngrs (Luxembourg) Ltd (u)
4 Boulevard Royal L 2449 Luxembourg 00 352 227301

[illegible]

American Phoenix Investment Portfolios (u)
13 rue Goethe, L-1637 Luxembourg 00 352 404640211

[illegible]

Foreign & Colonial Emerging Markets Ltd (u)
Exchange Ho, Primrose St, Ldn, EC2A 2NY 0171-628 1234

[illegible]

Foreign & Colonial Portfolios Fd Sicav(u)
47 Boulevard Royal, L-2449 Lux 00 352 4646161

[illegible]

Mercury Asset Management - Contd.

[illegible]

Morgan Stanley Sicav

[illegible]

ACM Offshore Funds - Contd.

[illegible]

Credit Suisse Asset Mgmt Funds - Contd.

[illegible]

Merrill Lynch Asset Management - Contd.

[illegible]

UBS AG - Contd.

[illegible]

OFFSHORE INSURANCES

[illegible]

LUXEMBOURG (REGULATED)(**)

ACM Offshore Funds

[illegible]

هكذا من الأصل



# FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS

# LONDON SHARE SERVICE

## ALCOHOLIC BEVERAGES

| Notes | Price | + or − | 52 week high | low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |

## BANKS, RETAIL

| Notes | Price | + or − | 52 week high | low | Volume '000s | Yld Gr's | P/E |
|---|---|---|---|---|---|---|---|
| [illegible] | | | | | | | |

## BREWERIES, PUBS & REST

[illegible]

## BUILDING MATS. & MERCHANTS

[illegible]

## CHEMICALS

[illegible]

## CONSTRUCTION

[illegible]

## CONSTRUCTION - Continued

[illegible]

## DISTRIBUTORS

[illegible]

## DIVERSIFIED INDUSTRIALS

[illegible]

## ELECTRICITY

[illegible]

## ELECTRONIC & ELECTRICAL EQPT

[illegible]

## ENGINEERING

[illegible]

## ENGINEERING - Continued

[illegible]



## ENGINEERING - Continued

[illegible]

## ENGINEERING, VEHICLES

[illegible]

## EXTRACTIVE INDUSTRIES

[illegible]

## FOOD PRODUCERS

[illegible]

## FOOD PRODUCERS - Continued

[illegible]

## GAS DISTRIBUTION

[illegible]

## HEALTH CARE

[illegible]

## HOUSEHOLD GOODS & TEXT

[illegible]

## INSURANCE

[illegible]

## INSURANCE - Continued

[illegible]

## INVESTMENT TRUSTS

[illegible]

## INVESTMENT TRUSTS - Continued

[illegible]

## INV TRUSTS SPLIT CAPITAL

[illegible]

# LONDON SHARE SERVICE

## OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

[illegible]

Net asset values supplied by BT Alex Brown International as a guide only. See guide to London Share Service

## INVESTMENT COMPANIES

[illegible]

## LEISURE & HOTELS

[illegible]

## LIFE ASSURANCE

[illegible]

## MEDIA

[illegible]

## MEDIA - Continued

[illegible]

## OIL EXPLORATION & PRODUCTION

[illegible]

## OIL, INTEGRATED

[illegible]

## OTHER FINANCIAL

[illegible]

## PAPER, PACKAGING & PRINTING

[illegible]

## PHARMACEUTICALS

[illegible]

## PROPERTY

[illegible]

## PROPERTY - Continued

[illegible]



## PROPERTY - Continued

[illegible]

## RETAILERS, FOOD

[illegible]

## RETAILERS, GENERAL

[illegible]

## RETAILERS, GENERAL - Continued

[illegible]

## SUPPORT SERVICES

[illegible]

## SUPPORT SERVICES - Continued

[illegible]

## TELECOMMUNICATIONS

[illegible]

## TOBACCO

[illegible]

## TRANSPORT

[illegible]

## TRANSPORT - Continued

[illegible]

## WATER

[illegible]

## AIM

[illegible]

## AIM - Continued

[illegible]

## AMERICANS

[illegible]

## CANADIANS

[illegible]

## SOUTH AFRICANS

[illegible]

## TRADED INDEX SECURITIES

[illegible]

## GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by [illegible], part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page, last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column only as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value - convertibles converted and warrants exercised if dilution occurs.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1485 a year for each security shown, subject to the Editor's discretion.

### ♣ FT Free Annual Reports Club

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### FT Company Focus / Focus Plus

Please note that FT Company Focus/Focus Plus reports ceased to be available as from May 4th 1998. However Sharefinder company reports, incorporating current and historic financial information, key performance data and consensus recommendations, may still be purchased by calling 0870 601 4600.

### FT Cityline

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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Call 0171 873 4378 for more information on FT Cityline.

The share prices printed on these pages are also available on the internet at http://www.FT.com.

## LONDON STOCK EXCHANGE

# Global market sell-off sees Footsie tumble again

**MARKET REPORT**

By Steve Thompson, UK Stock Market Editor

There was more severe pain for global stock markets yesterday and London was no exception, with the main UK stock market benchmark, the FTSE 100 index, suffering its second consecutive three-figure slide.

Bob Semple, UK equity market strategist at BT Alex Brown, said: "Equity markets are likely to remain turbulent for some time. If we start to see significant profit downgrades hitting the corporate sector as well, both in the UK and elsewhere, then the correction phase could be worse than down 20 per cent. Investors prepared to back the long-term view should be buying into any weakness."

But he emphasised: "While the economic ramifications of Russian financial instability and recession in Asia may not be massive for the UK, they are certainly hurting sentiment in international equity markets and pushing investors towards government bonds."

The FTSE 100 was left nursing a 176.9 or 3.2 per cent decline at 5,368.5 for a two-day fall of 285.9 or 5.1 per cent. At its worst, just before the close of trading, the FTSE 100 was down 191.9, coinciding with the Dow seemingly in free-fall.

Second-liners had to absorb heavy losses. Lingering worries that the FTSE 250 might lose the 5,000 level were confirmed with that index plunging through 4,900 and finishing 125.0 lower at 4,897.0, a fall of 2.5 per cent in a single session.

The performance of the SmallCap was even worse than the midcap, that index reversing 64.0 to 2,187.4.

Steep declines in London shares spread right across the board, unlike some of the recent sessions, which had seen the main thrust of selling generally confined to the leaders.

Again it was the economic and financial crises gripping Russia that sparked the sell-off in world stock markets, with leading European bourses, notably Frankfurt and Paris, sustaining more big losses.

Those falls came on the heels of an overnight 79-point slide in Wall Street's Dow Jones Industrial Average and widespread weakness among most of the Asian markets, especially Tokyo, which dropped more than 3 per cent. Hong Kong managed a 1 per cent rise amid suspicions that the government had continued to prop up the market.

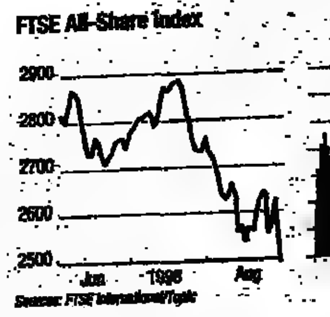
The gloom encompassing London was not all down to global turbulence. The latest Confederation of British Industry survey of monthly trends painted a picture of relentless gloom in manufacturing, calling on the government to implement an early cut in interest rates to prevent the economy sliding more than necessary, while still reaching its 2.5 per cent inflation target.

Stories of institutions selling big lines of stocks were ignored by marketmakers. "The big institutions struggle to buy lines of quality stock in good markets and they know better than to unload quality stock when markets are on the slide," said one dealer.

There were, however, some niggles among brokers that some marketmakers were reluctant to respond to urgent phone calls.

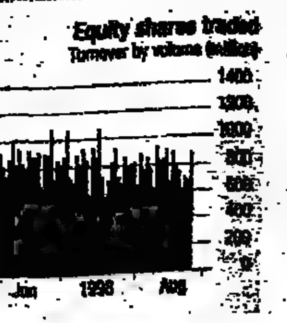
Turnover at 6pm was 881.0m shares, well up on activity in recent sessions.

FTSE All-Share Index




Source: FTSE International/Tegic

Equity shares traded
Turnover by volume (million)




**Indices and ratios**

| | | | | | |
|---|---|---|---|---|---|
| FTSE 100 | 5368.5 | -176.9 | FT 30 | 3406.2 | -134.0 |
| FTSE 250 | 4897.9 | -125.7 | FTSE Non-Fins p/e | 21.09 | 21.71 |
| FTSE 350 | 2572.5 | -81.4 | FTSE 100 Fut Sep | 5370.0 | -195.0 |
| FTSE All-Share | 2497.31 | -78.71 | 10 yr Gilt yield | 5.45 | 5.58 |
| FTSE All-Share yield | 3.18 | 3.09 | Long gilt/equity yld ratio | [illegible] | 1.78 |

**Best performing sectors**

1. Water -0.3
2. Retailers: Food -0.7
3. Pharmaceuticals -1
4. Property -1.5
5. Retailers: General -1.6

**Worst performing sectors**

1. Diversified Industrials -8
2. Oil Exploration & Prod -6.6
3. Electronic & Elect Equip -5.5
4. Extractive Industries -5
5. Household Goods & Texts -4.7

# Zeneca offers a tonic

**COMPANIES REPORT**

By Peter John and Joel Kibazo

In a stock market offering nothing less than a severe migraine yesterday only Zeneca appeared to be handing round the headache tablets.

They may not have ended as the best performers in Footsie, but they were outstanding until minutes before the close as a combination of defensive buying and product approval sent the shares up more than 2 per cent at best.

The sector is on one of the highest ratings in the market topped only by fast-moving telecommunications and information technology stocks.

And the leaders are also exposed to big moves in international markets because of their weightings in the US. However analysts said the sector offered an obvious safe haven in the face of international turmoil and Zeneca was particularly attractive because it had been heavily sold recently and the company had the potential of a boost to US earnings.

Dealers said the US Food and Drug Administration, the world's most powerful medical regulatory authority, would next week be looking at an extension of use for Tamoxifen, Zeneca's breast cancer treatment.

The product accounts for 12 per cent of group pharmaceutical sales.

James Culverwell of Merrill Lynch said: "Although there is limited patent protection for Tamoxifen, approval could give the product a whole new lease of life." The shares were up 80 at best before being dragged back to end a net 14 higher at £23.80.

Investors seeking a safe haven in a turbulent market turned to the food retailers, helping leading stocks in the sector outperform the poor market trend.

Food retailers have been out of favour in recent months on the back of growth concerns, but Tesco stood out among its peers, the shares closing a penny ahead at 160p, the best performer in the FTSE 100. Active dealing in the stock brought volume of 18m, the third most active Footsie stock yesterday.

Merrill Lynch was said to have highlighted the attractions of the sector. Dealers also attributed the advance to a recovery following a decline on Wednesday when shares in Tesco and other leading supermarkets dropped in active trading as a report from Institute of Grocery Distributors, showing a 2.7 per cent year-on-year drop in the week ended August 22.

However, analysts played down the concerns about weekly data on sales, noting that last year's figure was artificially strong due to an earlier August bank holiday.

In the rest of the sector, Asda eased 5 to 170p while J Sainsbury eased a penny to 505p. Safeway fell 2½ to 309½p and Somerfield declined 4½ to 365p.

Aero-engine maker Rolls-Royce surrendered 18 to 203p in trade of 11m as several analysts came to the view that profits may come under pressure in the short term because of low-margin civil aerospace sales.

Specialists on the sector said the group needs to increase its higher-margin after-market sales.

The group reported a rise in first-half profits but analysts said this was partly due to lower net research and development spending. Several suggested they would be downgrading the stock.

On Tuesday, Rolls shrugged off recent weakness as the market celebrated the announcement of new orders to power the British Airways fleet. The International Aero Engines consortium, in which Rolls is involved with Pratt & Whitney, is to supply the engines to the Airbus aircraft it ordered.

British Airways gave up 31 to 468p. As a result of expected continued revenue weakness, Salomon Smith Barney has downgraded its full-year forecasts. Operating profit was reduced from £817m to £680m, while the pre-tax profits figure was cut from £700m to £518m. Salomon also downgraded its target price from 750p to 680p.

### Shell discount

There was little let-up for the oil sector yesterday and Shell Transport tumbled in spite of a short-term positive recommendation from one US broker.

Shares in the company hit a 20-month low as the price of Brent crude for September dipped below $12.

Lehman Brothers reiterated its "underperform" recommendation stance on the stock. However, the US broker told clients that the shares offered a short-term buying opportunity.

The broker said that the internationally-traded stock was at a "rarely seen" discount of up to 17 per cent to its US peers.

Lehman added that the investment profile of the company was assisted by the potential of a joint marketing venture with the European arm of Texaco. The shares fell 13¼ to 328¾p.

Household products group Reckitt and Colman shed 68 to 962p as it said it expected the cost of ensuring its computer systems can handle the year 2000 to be £60m. The group said it had taken a charge of £16m against first-half profit for a compliance programme, with an estimated £25m to be taken against second-half earnings.

Most of the telecoms followed the poor market trend. Cable & Wireless fell 72 to 646p while British Telecommunications eased 6 to 826p after trade of 10m.

Among mobile phone operators, Orange fell 35 to 740p, while Vodafone Group which saw turnover of 14m declined 32 to 875p.

BAT Industries fell 50 to 600p as the grey market opened on the tobacco arm, which is being demerged on September 8.

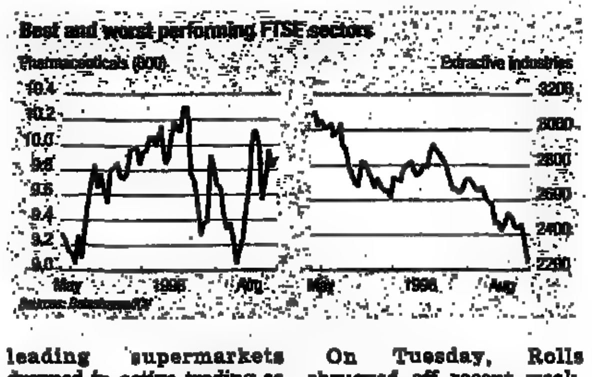
Shares in Newcastle United strongly outperformed the market rising 6½ to 63p following news that Kenny Dalglish had been sacked as team manager of the Premiership football club and replaced by former Chelsea manager Ruud Gullit.

However, several football sector analysts questioned the timing of Mr Dalglish's departure given that the new season is only three weeks old.

Others questioned the wisdom of allowing Mr Dalglish to spend around £15m on new players in the close season before his immediate departure.

Lex Service fell 31½ to 433p after saying it intends to make an offer for all its 6.5 per cent preference shares at a price of 130p per share. There are around 1.009m 6.5 per cent preference shares in issue.

Best and worst performing FTSE sectors




Source: Datastream/ICV

**FT 30 INDEX**

| | Aug 27 | Aug 26 | Aug 25 | Aug 24 | Aug 21 | Yr ago | *High | *Low |
|---|---|---|---|---|---|---|---|---|
| FT 30 | 3406.2 | 3540.2 | 3607.3 | 3546.7 | 3513.1 | 3117.5 | 3864.8 | 3300 |
| Ord. div. yield | 3.12 | 3.03 | 2.97 | 3.02 | 3.06 | 3.58 | 4.22 | 2.72 |
| P/E ratio net | 21.46 | 22.13 | 22.54 | 22.21 | 21.94 | 20.26 | 25.41 | 15.80 |
| P/E ratio nil | 21.37 | 22.04 | 22.45 | 22.12 | 21.85 | 19.99 | 25.10 | 15.71 |

FT 30 since compilation: high 3920.3 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

| 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 | High | Low |
|---|---|---|---|---|---|---|---|---|---|
| 3540.2 | 3487.5 | 3473.1 | 3469.5 | 3485.3 | 3477.0 | 3464.5 | 3446.3 | 3543.7 | 3399.0 |

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**STOCK MARKET TRADING DATA**

| | Aug 27 | Aug 26 | Aug 25 | Aug 24 | Aug 21 | Yr ago |
|---|---|---|---|---|---|---|
| SEAQ bargains | 55,891 | 53,186 | 55,451 | 51,080 | 66,326 | [illegible] |
| Equity turnover (£m)† | - | 2870.5 | 2503.3 | 2552.7 | 2873.1 | 2234.8 |
| Equity bargains† | - | 39,521 | 42,599 | 36,783 | 48,784 | 40,793 |
| Shares traded (m)† | - | 664.1 | 601.1 | 620.9 | 746.0 | 674.8 |
| Total market bargains‡ | - | 84,938 | 86,982 | 40,612 | 68,129 | - |
| Total turnover (£m)‡ | - | 4927.7 | 3516.8 | 3442.9 | 4276.8 | - |
| Total shrs traded (m)‡ | 881.0* | 907.9 | 886.6 | 813.1 | 1036.7 | - |
| Tradepoint turnover (£m) | 33.0 | 33.4 | 30.2 | 61.4 | 17.3 | 2.1 |
| Tradepoint shrs traded(m) | 10.0 | 10.6 | 9.2 | 8.8 | 8.4 | 0.2 |

†Excluding intra-market and overseas turnover not including Contract turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

■ London market data

| Rises and falls* | | 52 Week highs and lows | | LIFFE Equity options | |
|---|---|---|---|---|---|
| Total Rises | 102 | Total Highs | 54 | Total contracts | 30,861 |
| Total Falls | 1,929 | Total Lows | 640 | Calls | 17,067 |
| Same | 943 | | | Puts | 13,794 |

Aug 27 *Data based on Equity shares listed on the London Share Service.

**FUTURES AND OPTIONS**

■ FTSE 100 INDEX FUTURES (LIFFE) £10 per full index point

| | Open | Sett price | Change | High | Low | Est. vol | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 5555.0 | 5370.0 | -195.0 | 5561.0 | 5300.0 | 41714 | [illegible] |
| Dec | 5615.5 | 5447.5 | -198.5 | 5615.5 | 5480.0 | 8335 | 20542 |
| Mar | - | 5505.0 | -200.0 | - | - | 0 | 1245 |

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

[illegible]

■ FTSE 100 INDEX OPTION (LIFFE) (*5374) £10 per full index point

[illegible]

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

**LONDON RECENT ISSUES: EQUITIES**

[illegible]

**RIGHTS OFFERS**

[illegible]

**FTSE GOLD MINES INDEX**

| | | | | | |
|---|---|---|---|---|---|
| Gold Mines Index (26) | 790.80 | -4.3 | 825.39 | 1449.82 | 2.46 |
| ■ Regional Indices | | | | | |
| Africa (10) | 876.11 | -8.1 | 950.51 | 1455.98 | 5.71 |
| Australasia (7) | 901.10 | -2.9 | 925.05 | 1808.04 | 3.42 |
| Americas (11) | 784.76 | -2.8 | 807.30 | 1442.13 | 0.88 |

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**FTSE Actuaries Share Indices** — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

| | Aug 27 | Day's chge% | Aug 26 | Aug 25 | Year ago | Gross yield% | Net yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| FTSE 100 | 5368.5 | -3.2 | 5545.4 | 5654.4 | 4817.5 | 3.11 | 2.63 | 1.96 | 20.48 | 111.32 | 2362.87 |
| FTSE 250 | 4897.9 | -2.5 | 5023.6 | 5100.3 | 4603.4 | 3.37 | 2.86 | 1.99 | 18.59 | 95.00 | 2110.15 |
| FTSE 250 ex Inv Tr | 4852.2 | -3.3 | 5970.7 | 5141.5 | [illegible] | 3.46 | 2.84 | 2.08 | 17.54 | 98.33 | 2141.07 |
| FTSE 350 | 2572.5 | -3.1 | 2653.9 | 2704.0 | 2327.8 | 3.10 | 2.67 | 1.97 | 20.12 | 52.69 | 2312.89 |
| FTSE 350 ex Inv Tr | 2579.0 | -3.0 | 2660.1 | 2709.9 | 2329.3 | 3.17 | 2.69 | 1.98 | 19.92 | 53.13 | 1189.35 |
| FTSE 350 Higher Yield | 2460.2 | -3.4 | 2546.6 | 2593.9 | 2251.8 | 4.32 | 3.67 | 1.80 | 15.22 | 66.38 | 1893.74 |
| FTSE 350 Lower Yield | 2682.7 | -2.8 | 2760.4 | 2813.1 | 2408.1 | 2.24 | 1.90 | 2.07 | 26.88 | 41.65 | 1957.56 |
| FTSE SmallCap | 2187.44 | -2.8 | 2251.37 | 2265.84 | 2243.13 | 3.66 | 2.99 | 1.93 | 17.62 | 39.44 | 1910.29 |
| FTSE SmallCap ex Inv Tr | 2178.43 | -2.6 | 2237.76 | 2267.09 | 2307.10 | 3.92 | 3.19 | 2.09 | 15.75 | 41.10 | 1923.06 |
| FTSE All-Share | 2497.31 | -3.1 | 2576.02 | 2624.13 | 2276.72 | 3.18 | 2.69 | 1.97 | 19.96 | 50.79 | 2278.34 |
| FTSE All-Share ex Inv Tr | 2507.02 | -3.0 | 2585.30 | 2633.02 | 2278.63 | 3.20 | 2.71 | 1.98 | 19.67 | 51.42 | 1176.82 |

■ FTSE Actuaries Industry Sectors

| | Aug 27 | Day's chge% | Aug 26 | Aug 25 | Year ago | Gross yield% | Net yield% | Net cover | P/E ratio | Xd adj. ytd | Total Return |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 RESOURCES(22) | 3730.89 | -3.6 | 3868.60 | 3973.70 | 4738.39 | 4.11 | 3.55 | 1.66 | 18.32 | 88.48 | 1722.34 |
| 12 Extractive Industries(6) | 2247.05 | -6.0 | 2389.51 | 2457.79 | 4100.87 | 6.20 | 5.70 | 2.06 | 9.79 | 79.47 | 709.98 |
| 15 Oil, Integrated(4) | 4284.22 | -3.2 | 4426.79 | 4541.52 | 5018.35 | 3.98 | 3.40 | 1.58 | 19.88 | 98.58 | 2035.49 |
| 16 Oil Exploration & Prod(12) | 2172.48 | -5.6 | 2301.04 | 2359.45 | 3767.12 | 2.62 | 2.17 | 1.69 | 28.24 | 33.41 | 1350.33 |
| 20 GEN INDUSTRIALS(216) | 1724.73 | -3.8 | 1792.70 | 1819.83 | 2009.71 | 4.21 | 3.71 | 2.26 | 13.11 | 44.69 | 1020.78 |
| 21 Construction(38) | 1205.26 | -2.5 | 1236.66 | 1263.22 | 1373.30 | 4.09 | 3.32 | 2.72 | 11.22 | 22.87 | 1077.47 |
| 22 Building Matls & Merchs(28) | 1393.19 | -4.4 | 1457.46 | 1486.30 | 1812.06 | 5.28 | 4.60 | 2.00 | 11.85 | 39.74 | 782.31 |
| [illegible] | | | | | | | | | | | |
| 77 Other Financial(25) | 4140.19 | -4.1 | 4317.61 | 4417.76 | 3333.10 | 2.70 | 2.22 | 2.18 | 21.27 | 77.22 | 2533.80 |
| 79 Property(43) | 1853.01 | -1.5 | 1880.76 | 1891.75 | 1989.66 | 3.55 | 2.98 | 1.61 | 21.89 | 36.14 | 1223.46 |
| 80 INVESTMENT TRUSTS(114) | 3347.06 | -4.0 | 3488.12 | 3580.47 | 3384.49 | 2.44 | 1.98 | 1.17 | 43.74 | 47.20 | 1223.96 |
| 89 FTSE All-Share(850) | 2497.31 | -3.1 | 2576.02 | 2624.13 | 2276.72 | 3.18 | 2.69 | 1.97 | 19.96 | 50.79 | 2278.34 |
| 105 FTSE All-Share ex Inv Tr(736) | 2507.02 | -3.0 | 2585.30 | 2633.02 | 2278.63 | 3.20 | 2.71 | 1.98 | 18.67 | 51.42 | 1176.82 |
| Information Technology | 1538.45 | -4.7 | 1614.01 | 1649.79 | - | 0.59 | 0.47 | 4.01 | 52.55 | 4.95 | 1543.82 |
| FTSE Fledgling | 1222.71 | -2.4 | 1254.06 | 1270.04 | 1250.27 | 3.65 | 2.96 | 1.35 | [illegible] | 22.94 | 1362.87 |
| FTSE Fledgling ex Inv Tr | 1248.45 | -2.2 | 1276.93 | 1291.18 | 1257.09 | 3.89 | 3.14 | 1.48 | 21.79 | 25.66 | 1396.76 |
| FTSE AIM | 927.4 | -3.7 | 963.2 | 977.5 | 1022.3 | 1.16 | 0.92 | ‡ | ‡ | 7.23 | 858.48 |

■ Hourly movements

| | 9.00 | 10.00 | 11.00 | 12.00 | 13.00 | 14.00 | 15.00 | 16.10 | High/day | Low/day |
|---|---|---|---|---|---|---|---|---|---|---|
| FTSE 100 | 5545.4 | 5423.0 | 5429.6 | 5430.2 | 5450.9 | 5440.4 | 5426.8 | 5414.1 | 5554.7 | 5353.5 |
| FTSE 250 | 5018.7 | 4976.0 | 4960.4 | 4942.7 | 4940.4 | 4937.5 | 4928.9 | 4971.1 | 5018.4 | 4887.9 |
| FTSE 350 | 2653.5 | 2601.3 | 2602.4 | 2601.0 | 2608.9 | 2604.5 | 2598.2 | 2591.7 | 2656.9 | 2566.9 |
| FTSE SmallCap | 2249.49 | 2229.49 | 2210.45 | 2202.44 | 2199.42 | 2196.66 | 2194.23 | 2189.67 | 2248.45 | 2187.44 |
| FTSE All-Share | 2575.11 | 2525.97 | 2526.21 | 2524.38 | 2531.46 | 2527.39 | 2521.29 | 2516.03 | 2578.19 | 2492.20 |

Time of FTSE 100 Day's high: 9:08:45 Day's low: 16:29:00. FTSE 100 1998 High: 6179.0 (20/07/98) Low: 5088.8 (12/01/98).
Time of FTSE All-Share Day's high: 9:07:00 Day's low: 16:29:00. FTSE All-Share 1998 High: 2835.20 (20/07/98) Low: 2369.32 (12/01/98).

Further information is available on http://www.ftse.com.



† Sector P/E ratios greater than 80 are not shown. ‡ Values are negative. Minor change: Quiligotti now Pilkington Tiles (FTSE Fledgling).

FTSE INTERNATIONAL

**TRADING VOLUME**

■ Major Stocks yesterday

[illegible]

Highs & Lows shown on a 52 week basis

# WORLD STOCK MARKETS

## EUROPE

AUSTRIA (Aug 27 / Sch)

BELGIUM/LUXEMBOURG (Aug 27 / Frs.)

CZECH REP (Aug 27 / Korune)

DENMARK (Aug 27 / Kr)

FINLAND (Aug 27 / Mkk)

FRANCE (Aug 27 / Frs.)

GERMANY (Aug 27 / Dm.)

GREECE (Aug 27 / Drachma)

ITALY (Aug 27 / Lire)

NORWAY (Aug 27 / Kroner)

NETHERLANDS (Aug 27 / Fls.)

POLAND (Aug 27 / Zloty)

PORTUGAL (Aug 27 / Escudo)

SPAIN (Aug 27 / Pts.)

SWEDEN (Aug 27 / Kronor)

SWITZERLAND (Aug 27 / Frs.)

TURKEY (Aug 27 / Tk Lira)



## PACIFIC

JAPAN (Aug 27 / Yen)

HONG KONG (Aug 27 / H.K.$)

INDONESIA (Aug 27 / Rupiah)

MALAYSIA (Aug 27 / MYR)

NEW ZEALAND (Aug 27 / NZ $)

SINGAPORE (Aug 27 / S$)

AUSTRALIA (Aug 27 / Aust$)

SOUTH KOREA (Aug 27 / Won)

TAIWAN (Aug 27 / TW $)

THAILAND (Aug 27 / Baht)

## AMERICAS

CANADA

TORONTO (Aug 27 / Can $) 4 pm close

MONTREAL (Aug 27 / Can $) 4 pm close

MEXICO (Aug 27 / Peso) 12:30 pm

## AFRICA

SOUTH AFRICA (Aug 27 / Rand)

## FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries.

| NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock | WEDNESDAY AUGUST 26 1998 US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | TUESDAY AUGUST 25 1998 US Dollar Index | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | DOLLAR INDEX 52 week High | 52 week Low | Year ago (approx) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Australia (72) | 172.59 | -1.3 | 156.36 | 157.82 | 162.19 | 200.17 | -0.7 | 3.73 | 174.94 | 158.29 | 160.04 | 163.64 | 201.57 | 238.24 | 172.59 | 230.88 |
| Austria (22) | 192.47 | -4.4 | 174.38 | 176.00 | 180.87 | 180.77 | -4.0 | 1.87 | 201.39 | 182.22 | 184.24 | 188.38 | 188.27 | 253.73 | 181.60 | 192.11 |
| Belgium (22) | 363.50 | -1.6 | 329.33 | 332.40 | 341.60 | 334.21 | -1.2 | 2.05 | 369.47 | 334.30 | 338.01 | 345.61 | 338.13 | 398.52 | 234.33 | 237.02 |
| Brazil (26) | 154.66 | -3.9 | 140.13 | 141.43 | 145.34 | 333.57 | -4.0 | 3.46 | 160.88 | 145.56 | 147.18 | 150.49 | 347.56 | 308.59 | 154.66 | 277.25 |
| Canada (119) | 187.00 | -1.8 | 169.42 | 171.00 | 175.73 | 211.33 | -1.1 | 1.93 | 190.40 | 172.28 | 174.19 | 178.11 | 213.71 | 248.78 | 187.00 | 214.43 |
| Denmark (34) | 473.31 | -1.8 | 428.82 | 432.82 | 444.79 | 443.21 | -1.1 | 1.46 | 480.80 | 435.03 | 439.86 | 449.75 | 448.30 | 537.33 | 375.32 | 393.13 |
| Finland (28) | 419.47 | -4.3 | 380.04 | 383.58 | 394.20 | 484.22 | -3.8 | 1.90 | 439.29 | 398.57 | 400.97 | 409.99 | 503.24 | 508.48 | 267.59 | 292.08 |
| France (78) | 297.60 | -2.9 | 269.63 | 272.14 | 279.67 | 282.90 | -2.5 | 2.23 | 308.54 | 277.37 | 280.44 | 286.75 | 290.02 | 345.16 | 217.48 | 224.19 |
| Germany (56) | 269.84 | -3.0 | 244.48 | 246.76 | 253.58 | 253.58 | -2.5 | 1.26 | 278.05 | 251.58 | 254.37 | 260.09 | 260.09 | 325.61 | 204.89 | 217.85 |
| Greece (37) | 276.46 | -2.6 | 250.47 | 252.80 | 259.80 | 620.23 | -0.8 | 1.52 | 283.92 | 256.89 | 259.74 | 265.58 | 624.93 | 333.20 | 260.24 | – |
| Hong Kong, China (66) | 226.95 | -0.4 | 205.62 | 207.53 | 213.28 | 225.76 | -0.3 | 6.88 | 227.80 | 206.12 | 208.40 | 213.09 | 226.53 | 542.50 | 196.64 | 540.95 |
| Indonesia (27) | 29.58 | -3.8 | 26.80 | 27.05 | 27.80 | 203.24 | -2.5 | 3.33 | 30.75 | 27.83 | 28.13 | 28.77 | 208.46 | 174.57 | 23.58 | 164.88 |
| Ireland (16) | 465.48 | -2.5 | 421.73 | 425.66 | 437.43 | 472.83 | -2.1 | 2.00 | 477.58 | 432.12 | 436.92 | 446.74 | 482.63 | 580.44 | 359.80 | 366.65 |
| Italy (54) | 160.59 | -3.0 | 145.49 | 146.85 | 150.91 | 213.86 | -2.8 | 1.37 | 165.62 | 149.85 | 151.52 | 154.92 | 219.50 | 184.49 | 98.00 | 98.50 |
| Japan (490) | 82.11 | -1.3 | 74.39 | 75.09 | 77.16 | 75.09 | -1.3 | 1.05 | 83.16 | 75.24 | 76.06 | 77.79 | 76.06 | 128.03 | 81.87 | 128.03 |
| Malaysia (106) | 82.98 | 0.1 | 75.18 | 75.88 | 77.98 | 134.55 | -0.1 | 4.68 | 82.93 | 75.04 | 75.87 | 77.58 | 134.63 | 371.67 | 79.14 | 371.67 |
| Mexico (29) | 959.90 | -6.0 | 869.68 | 877.78 | 902.07 | 10303.55 | -3.0 | 2.64 | 1009.89 | 913.77 | 923.91 | 944.68 | 10616.54 | 1901.98 | 959.90 | 1759.65 |
| Netherlands (27) | 470.45 | -3.0 | 426.23 | 430.20 | 442.10 | 437.70 | -2.5 | 2.04 | 484.78 | 438.64 | 443.50 | 453.48 | 448.89 | 592.38 | 385.56 | 401.88 |
| New Zealand (14) | 54.01 | -0.1 | 48.93 | 49.39 | 50.75 | 58.47 | 0.2 | 5.25 | 54.05 | 48.91 | 49.45 | 50.56 | 58.35 | 95.87 | 54.01 | 89.33 |
| Norway (38) | 231.56 | -5.3 | 209.79 | 211.75 | 217.61 | 251.80 | -3.8 | 2.49 | 244.62 | 221.34 | 223.80 | 228.83 | 261.66 | 374.64 | 231.56 | 317.65 |
| Philippines (22) | 50.68 | -1.8 | 45.92 | 46.34 | 47.63 | 110.12 | -1.7 | 1.49 | 51.61 | 46.70 | 47.21 | 48.28 | 112.01 | 122.54 | 50.68 | 122.54 |
| Portugal (18) | 251.83 | -3.1 | 228.16 | 230.29 | 236.66 | 318.97 | -2.8 | 1.02 | 259.94 | 235.20 | 237.81 | 243.16 | 327.83 | 299.39 | 251.83 | – |
| Singapore (41) | 118.66 | 1.1 | 107.51 | 108.51 | 111.51 | 97.09 | 1.3 | 3.11 | 117.36 | 106.19 | 107.37 | 109.78 | 95.88 | 338.64 | 117.36 | 338.64 |
| South Africa (40) | 160.39 | -8.0 | 145.31 | 146.66 | 150.72 | 223.66 | -6.4 | 4.00 | 174.23 | 157.65 | 159.40 | 162.98 | 238.88 | 348.20 | 160.39 | 339.79 |
| Spain (31) | 340.03 | -4.3 | 308.07 | 310.94 | 319.54 | 395.23 | -3.9 | 1.93 | 355.36 | 321.54 | 325.10 | 332.42 | 411.06 | 417.73 | 236.28 | 244.72 |
| Sweden (48) | 503.18 | -2.7 | 455.88 | 460.13 | 472.86 | 620.32 | -2.2 | 1.89 | 517.18 | 467.95 | 473.14 | 483.78 | 634.31 | 628.19 | 439.98 | 483.88 |
| Switzerland (28) | 380.91 | -2.2 | 345.11 | 348.32 | 357.96 | 365.41 | -2.2 | 1.17 | 389.67 | 352.58 | 356.49 | 364.51 | 363.34 | 499.48 | 285.85 | 292.85 |
| Thailand (37) | 9.61 | -1.1 | 8.71 | 8.79 | 9.04 | 15.59 | -0.4 | 6.05 | 9.72 | 8.79 | 8.88 | 9.09 | 15.65 | 43.52 | 9.59 | 43.35 |
| United Kingdom (210) | 353.33 | -2.0 | 320.12 | 323.10 | 332.04 | 320.12 | -1.9 | 3.10 | 360.60 | 326.28 | 329.90 | 337.32 | 326.28 | 401.84 | 303.41 | 310.23 |
| USA (625) | 442.83 | -0.8 | 401.21 | 404.95 | 416.15 | 442.83 | -0.8 | 1.47 | 446.55 | 404.04 | 408.52 | 417.71 | 446.55 | 485.88 | 358.31 | 371.27 |
| Americas (798) | 394.80 | -0.9 | 357.51 | 360.84 | 370.82 | 384.81 | -0.9 | 1.50 | 398.21 | 360.31 | 364.31 | 372.50 | 387.78 | 437.03 | 326.79 | 339.46 |
| Europe (748) | 331.94 | -2.6 | 300.74 | 303.54 | 311.94 | 317.83 | -2.3 | 2.14 | 340.82 | 308.38 | 311.80 | 318.81 | 325.24 | 386.24 | 265.25 | 269.22 |
| Eurobloc (352) | 95.92 | -3.0 | 86.90 | 87.71 | 90.14 | 97.49 | -2.6 | 1.75 | 98.92 | 89.51 | 90.50 | 92.54 | 100.07 | 113.28 | 85.92 | – |
| Nordic (149) | 452.57 | -3.0 | 410.03 | 413.85 | 425.30 | 479.98 | -2.4 | 1.86 | 468.57 | 422.16 | 425.85 | 436.45 | 492.01 | 555.97 | 398.51 | 413.69 |
| Pacific Basin (865) | 87.11 | -1.2 | 78.93 | 79.66 | 81.87 | 80.04 | -1.1 | 1.84 | 88.14 | 79.75 | 80.69 | 82.44 | 80.85 | 144.99 | 88.47 | 144.99 |
| Euro-Pacific (1613) | 189.16 | -2.2 | 171.38 | 172.98 | 177.78 | 169.76 | -2.0 | 2.06 | 193.48 | 175.06 | 177.00 | 180.98 | 173.19 | 220.19 | 172.03 | 198.85 |
| North America (744) | 425.87 | -0.9 | 385.66 | 389.25 | 400.02 | 427.01 | -0.8 | 1.48 | 429.39 | 388.52 | 392.83 | 401.66 | 430.63 | 469.20 | 349.06 | 361.55 |
| Europe Ex. UK (538) | 310.05 | -2.9 | 280.91 | 283.52 | 291.37 | 306.84 | -2.5 | 1.67 | 319.28 | 288.89 | 292.09 | 298.66 | 314.59 | 366.32 | 236.79 | 241.25 |
| Europe Ex. Eurobloc (396) | 90.74 | -2.1 | 82.21 | 82.97 | 85.27 | 92.74 | -2.0 | 2.55 | 92.73 | 83.90 | 84.83 | 86.74 | 94.60 | 103.93 | 90.30 | – |
| Europe Ex. UK Ex. Eurobloc (186) | 92.26 | -2.4 | 83.59 | 84.37 | 86.70 | 95.11 | -2.1 | 1.42 | 94.55 | 85.55 | 86.50 | 88.44 | 97.15 | 109.21 | 92.26 | – |
| Pacific Ex. Japan (385) | 139.04 | -0.8 | 125.97 | 127.15 | 130.67 | 150.78 | -0.4 | 4.98 | 140.11 | 126.77 | 128.18 | 131.06 | 151.43 | 292.09 | 133.44 | 292.09 |
| World Ex. Eurobloc (2100) | 91.78 | -1.2 | 83.15 | 83.93 | 86.25 | 93.73 | -1.1 | 1.78 | 92.91 | 84.07 | 85.00 | 86.91 | 94.81 | 103.16 | 91.24 | – |
| World Ex. US (1827) | 188.58 | -2.3 | 170.86 | 172.45 | 177.22 | 173.74 | -2.0 | 2.09 | 193.00 | 174.63 | 176.56 | 180.53 | 177.29 | 221.91 | 175.30 | 200.97 |
| World Ex. UK (2242) | 262.74 | -1.5 | 238.05 | 240.26 | 246.91 | 244.80 | -1.3 | 1.60 | 266.64 | 241.26 | 243.94 | 249.42 | 248.09 | 298.02 | 234.24 | 250.14 |
| World Ex. Japan (1972) | 364.22 | -1.6 | 329.99 | 333.06 | 342.28 | 361.76 | -1.4 | 1.83 | 369.95 | 334.74 | 338.45 | 346.06 | 366.88 | 411.23 | 309.33 | 320.26 |
| The World Index (2452) | 270.46 | -1.5 | 245.04 | 247.32 | 254.17 | 251.69 | -1.4 | 1.76 | 274.64 | 248.50 | 251.28 | 256.91 | 255.23 | 306.58 | 241.30 | 255.32 |



## Emerging markets: IFC investable indices

Dollar terms

| Aug 26 Market | | Day's chg % | % Chg since 31/12/97 |
|---|---|---|---|
| **Latin America** | | | |
| Argentina | 716.68 | -1.7 | -35.8 |
| Brazil | 313.54 | -3.5 | -35.0 |
| Chile | 422.82 | -3.0 | -34.2 |
| Colombia[1] | 420.72 | -3.0 | -49.0 |
| Mexico | 424.31 | -4.7 | -46.2 |
| Peru[2] | 154.53 | -3.2 | -30.2 |
| Venezuela[3] | 290.19 | -4.4 | -68.3 |
| **East Asia** | | | |
| China[4] | 22.94 | -2.0 | -58.5 |
| India[7] | 63.95 | | -23.3 |
| Indonesia[6] | 14.91 | -1.8 | -55.7 |
| Korea[5] | 26.38 | +2.6 | +9.7 |
| Malaysia | 45.48 | +0.1 | -50.1 |
| Pakistan[8] | 99.70 | +2.3 | -59.9 |
| Philippines | 71.27 | -0.7 | -38.8 |
| Sri Lanka[9] | 58.26 | +5.4 | -41.3 |
| Taiwan, China[8] | 105.17 | -1.8 | -25.4 |
| Thailand | 34.34 | -1.8 | -27.0 |
| **Europe** | | | |
| Czech Rep | 48.53 | -3.9 | -15.0 |
| Greece | 492.72 | -1.9 | +52.1 |
| Hungary[6] | 245.68 | -6.2 | -22.0 |
| Poland[9] | 554.38 | -3.9 | -7.1 |
| Portugal | 282.01 | -3.1 | +33.8 |
| Russia | 27.63 | -18.9 | -81.4 |
| Slovakia | 61.12 | +1.2 | -38.4 |
| Turkey[9] | 181.94 | -6.2 | -41.7 |
| **Mideast/Africa** | | | |
| Egypt | 65.20 | -1.2 | -30.1 |
| Israel | 115.66 | -2.7 | -5.0 |
| Jordan | 237.55 | +0.4 | +13.0 |
| Morocco | 174.47 | +0.5 | +33.9 |
| S Africa[9] | 113.14 | -8.4 | -37.1 |
| Zimbabwe[9] | 158.36 | -2.1 | -37.1 |
| **Regions** | | | |
| Composite | 164.51 | -3.6 | -33.1 |
| Latin America | 409.22 | -3.8 | -40.0 |
| Asia | 72.73 | -0.3 | -32.5 |
| EMEA | 109.97 | -6.7 | -25.5 |
| Europe | 144.13 | -5.4 | -23.5 |
| Eastn Europe | 59.17 | -9.3 | -57.9 |
| ME & Africa | 51.80 | -6.0 | -27.8 |

Base date: Dec 1988=100 except those noted which are: (1)Feb 1 1991, (2)Dec 31 1992, (3)Jan 5 1990, (4)Dec 31 1992, (5)Jan 3 1992, (6)Jan 4 1991, (7)Nov 6 1992, (8)Sep 28 1990, (9)Mar 1 1997, (10) Dec 31 1992, (11)Dec 31 1993, (12)Dec 31 1992, (13)Dec 31 1992, (14)Dec 31 1992, (15)Aug 2 1993, (16) July 2 1993.

Latest indices were unavailable for this edition.

4 pm close August 27

# NEW YORK STOCK EXCHANGE PRICES

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
¶ Dealings suspended.



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# GLOBAL EQUITY MARKETS

## US INDICES

| Dow Jones | Aug 26 | Aug 25 | Aug 24 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Industrials | 8523.35 | 8602.65 | 8566.61 | 9337.97 (17/7) | 7580.42 (9/1) | 9337.97 (17/7/98) | 41.22 (8/7/32) |
| Home Bonds | 105.18 | 105.15 | 105.19 | 105.48 (15/1) | 104.42 (11/5) | 105.48 (15/1/98) | 54.99 (1/10/81) |
| Transport | 2945.34 | 3025.23 | 3007.24 | 3686.02 (16/4) | 2945.34 (26/8) | 3686.02 (16/4/98) | 13.23 (8/7/32) |
| Utilities | 284.25 | 283.53 | 284.22 | 285.40 (6/7) | 262.58 (9/1) | 285.40 (6/7/98) | 10.53 (8/7/32) |

DJ Ind. Day's high 8639.47 (8740.91) Low 8396.66 (8510.22) (Theoretical) Day's high 8600.65 (8688.42) Low 8457.40 (8538.54) (Actual)

| Standard and Poors | Aug 26 | Aug 25 | Aug 24 | 1998 High | 1998 Low | Since compilation High | Since compilation Low |
|---|---|---|---|---|---|---|---|
| Composite‡ | 1084.19 | 1092.85 | 1088.14 | 1186.75 (17/7) | 927.69 (9/1) | 1186.75 (17/7/98) | 4.40 (1/6/32) |
| Industrials‡ | 1286.24 | 1295.21 | 1288.73 | 1380.48 (17/7) | 1077.40 (9/1) | 1380.48 (17/7/98) | 3.52 (30/6/32) |
| Financial‡ | 121.57 | 123.21 | 122.94 | 147.88 (14/7) | 110.65 (9/1) | 147.88 (14/7/98) | 7.13 (4/9/74) |
| **Others** | | | | | | | |
| NYSE Comp. | 530.55 | 545.01 | 543.72 | 600.75 (17/7) | 487.47 (9/1) | 600.75 (17/7/98) | 4.64 (25/4/42) |
| Amex Comp | 633.83 | 646.56 | 649.32 | 753.67 (22/4) | 633.83 (26/8) | 753.67 (22/4/98) | 524.20 (14/7/98) |
| NASDAQ Cmp | 1788.13 | 1796.17 | 1790.82 | 2014.25 (20/7) | 1509.22 (9/1) | 2014.25 (20/7/98) | 54.87 (3/10/74) |
| Russell 2000 | 390.42 | 399.76 | 393.70 | 491.41 (21/4) | 390.42 (26/8) | 491.41 (21/4/98) | 123.36 (7/12/93) |

## ■ RATIOS

| | Aug 21 | Aug 14 | Aug 7 | Year ago |
|---|---|---|---|---|
| Dow Jones Ind. Div. Yield | 1.44 | 1.75 | 1.71 | 1.66 |
| | Aug 26 | Aug 19 | Aug 12 | Year ago |
| S & P Ind. Div. yield | 1.33 | 1.32 | 1.34 | 1.54 |
| S & P Ind. P/E ratio | 30.83 | 31.03 | 30.57 | 25.75 |

## US DATA

### ■ MARKET ACTIVITY

| ● Volume (million) | Aug 26 | Aug 25 | Aug 24 | NYSE | Aug 26 | Aug 25 | Aug 24 |
|---|---|---|---|---|---|---|---|
| NYSE | 674.180 | 692.740 | 683.820 | Issues Traded | 3,525 | 3,538 | 3,534 |
| | | | | Rises | 733 | 1,367 | 1,303 |
| | | | | Falls | 2,396 | 1,652 | 1,843 |
| Amex | 28.762 | 27.680 | 21.470 | Unchanged | 396 | 519 | 388 |
| | | | | New Highs | 34 | 66 | 38 |
| NASDAQ | 880.936 | 824.925 | 804.908 | New Lows | 594 | 298 | 279 |

### ■ NYSE TRADING ACTIVITY

Volume : 674,180,000

| ■ ACTIVE STOCKS Wednesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| Compaq | 8,807,200 | 34¼ | −¾ |
| Gillette | 5,928,100 | 44⅝ | −1⅛ |
| Pfizer | 5,283,700 | 44⅞ | −⅛ |
| CBS Cp | 4,882,700 | 27 | −⅞ |
| Conseco | 4,969,700 | 32⅝ | −1⅜ |
| Travlr | 4,519,500 | 54⅞ | −⅞ |
| MascoC | 4,438,800 | 28⅝ | −1⅛ |
| Cendnt | 4,206,300 | 14⅛ | −⅞ |
| Telebras | 4,188,800 | 80¼ | −3⅛ |
| Dowles | 4,148,700 | 4⅝ | −¼ |

| ■ BIGGEST MOVERS Wednesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| InputOutp | 11⅛ | +2⅛ | +22.7 |
| Teppco Pln | 29¼ | +1⅞ | +7.1 |
| AstraB | 17 | +⅞ | +5.4 |
| AmGeni | 72⅛ | +3⅛ | +4.6 |
| Downs | | | |
| Hanvig | 16⅝ | −3⅝ | −18.7 |
| Zapata | 11⅛ | −1⅞ | −13.6 |
| Giant Inds | 14 | −1¾ | −11.1 |
| Lone Star | 10⅛ | −1⅛ | −10.1 |

### ■ NASDAQ TRADING ACTIVITY

Volume 880,936,000

| ■ ACTIVE STOCKS Wednesday | Stocks traded | Close price | Day's change |
|---|---|---|---|
| DellCmp | 31,748,700 | 128⅝ | −4⅝ |
| FORESy | 16,047,000 | 15⅝ | −5⅛ |
| Intel | 13,098,000 | 83 | −1⅛ |
| Micsft | 11,000,400 | 112⅛ | −⅜ |
| CiscoSys | 10,095,900 | 103⅝ | −⅞ |
| ApplMat | 8,876,700 | 28⅞ | −1⅛ |
| WorldCm | 8,095,200 | 53⅛ | −⅞ |
| AgriBiotec | 7,507,300 | 11⅝ | −⅞ |
| WamMut | 7,092,200 | 32⅝ | −1⅛ |
| AscendCom | 6,650,600 | 43⅝ | −1⅛ |

| ■ BIGGEST MOVERS Wednesday | Close price | Day's change | Day's chge % |
|---|---|---|---|
| Ups | | | |
| Trackdata | 17⅝ | +2⅛ | +13.8 |
| AdobeS | 27⅝ | +3⅛ | +12.5 |
| DeclLng | 12⅝ | +1¼ | +11.4 |
| Autodsk | 25⅛ | +1⅞ | +8.1 |
| Downs | | | |
| FORESy | 15⅝ | −5⅛ | −22.2 |
| CatdEnvl | 11⅛ | −2⅛ | −17.1 |
| AdvantA | 11⅝ | −2⅛ | −15.9 |
| LoisoBdy | 13⅝ | −2⅛ | −14.2 |

Dow Jones

FTSE Eurotop 300

## JAPAN

[illegible]

## GERMANY

[illegible]

## FRANCE

[illegible]

## UK

[illegible]

## INDEX FUTURES

| ■ S&P 500 | Open | Latest | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Sep | 1087.80 | 1070.00 | −25.60 | 1089.80 | 1069.00 | 136,448 | 361,854 |
| Dec | 1092.80 | 1084.00 | −23.20 | 1085.00 | 1080.00 | 8,020 | 25,893 |
| ■ Nikkei 225 | Open | Sett price | Change | High | Low | Est. vol. | Open int. |
| Sep | 14710.0 | 14440.0 | −410.0 | 14720.0 | 14320.0 | 52,045 | 200,899 |
| Dec | 14620.0 | 14400.0 | −360.0 | 14620.0 | 14260.0 | 9,502 | 44,382 |

Open interest figures for previous day.

| ■ CAC-40 (200 x Index) | Open | Sett.Price | Change | High | Low | Est. vol. | Open int. |
|---|---|---|---|---|---|---|---|
| Aug | 3880.0 | 3740.0 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Sep | 3895.0 | 3749.5 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| ■ DAX | | | | | | | |
| Sep | 5210.0 | 5029.0 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |
| Dec | 5271.5 | 5067.5 | [illegible] | [illegible] | [illegible] | [illegible] | [illegible] |

## WORLD MARKETS AT A GLANCE

[illegible]

# THE NASDAQ STOCK MARKET

4 pm close August 27

[illegible]

# THE NASDAQ STOCK MARKET

[illegible]

# AMEX PRICES

4 pm close August 27

[illegible]

# EASDAQ

[illegible]

# STOCK MARKETS

# Russian fears drive investors to safe havens

**WORLD OVERVIEW**

The collapse in stock markets continued as fears over the outlook for the Russian political system and the Japanese economy drove international investors back into the safe havens of cash and western government bonds, *writes Simon Davies.*

The *effective* Russian default sparked fears of a knock-on effect throughout the developing world, and with the Russian restructuring failing to halt the slide in the country's financial markets, the global sell-off continued.

The Hong Kong stock market was the exception, with further intervention from the Hong Kong Monetary Authority providing the impetus for another rally.

However, Tokyo continued to slump and the stock market correction spread to Europe, where investors demonstrated concerns over the political risks implied by the Russian crisis, as well as the direct economic impact.

The FTSE Eurotop 100 index of pan-European stocks was down 3.44 per cent, and the sell-off picked up steam in early trading in the Americas. "Russia does not have an enormous impact on the developed world, but it is driving down commodity markets and investors are now repricing risk globally," said Philip Isherwood, equity strategist at Dresdner Kleinwort Benson.

The flight to safety continued, with Western government bond yields continuing to fall, and the US and Germany achieving record lows, demonstrating the rapidly falling appetite for risk, and growing concerns over economic growth rates in the developed world.

One busy European equities trader said: "It's time to put your tin hat on. This is not going to be a fun ride."

Banks were particularly hard hit, given the potential for trading losses and provisioning on emerging market loans, as demonstrated by the recent statement from Credit Suisse First Boston.

Strategists are concerned that as the cost of borrowing in emerging markets spreads from eastern Europe to Latin America, it will drive that region into recession and have a direct impact on US earnings and therefore its stock market. This in turn would impact on US demand for Latin American goods, creating a vicious spiral.

However, HSBC continued to argue that the recent slump offered an opportunity for bargain hunting as earnings-driven bear markets require a collapse in profit expectations, something yet to emerge.

HSBC is projecting global earnings growth of 5-6 per cent next year, and points out that global earnings upgrades have exceeded downgrades in the last six months.

## MARKET FOCUS

# Nordics chilled by eastern gale

A cold wind is blowing through Scandinavian equity and currency markets, coming straight from Russia.

Nervousness caused by the crisis in Moscow has compounded jitters – most noticeably in Norway – over inflationary pressures and the risk of a hard economic landing this year or next.

That has undermined confidence in the Swedish and Danish markets, even though their fundamental economic indicators are much healthier than in Norway, and the prospect of a sharp downturn is less real than imagined.

But this week's currency and equity market performance in all three countries makes grim viewing.

The decision by Norges Bank, the country's central bank, to abandon its defence of the krone on Monday unnerved equity investors.

*The Oslo Totalindeks*, already hit by its exposure to oil and shipping stocks, has declined 20.51 per cent in August – streaking ahead of the Madrid Ibex 35 and Singapore's Straits Times index as one of the world's worst performers.

Yesterday, the all share index in Oslo fell a further 3.2 per cent as banking shares reacted negatively to the central bank's announcement that rates would remain unchanged after seven increases this year.

Energy stocks have been further undermined by volatile commodity costs. Fred Olsen Energy and Smedvig – both vulnerable to oil prices – have dropped almost 40 per cent this year.

Currency losses have not helped. And the Norwegian krone fell 3.4 per cent against the Ecu yesterday to an eight-year low.

The Swedish and Danish currencies have fared better, but not much. The Swedish krona yesterday continued to fall and bond yields moved upwards.

The SX general index in Stockholm was down 91.85 at 3,238.52, prompting one Stockholm broker to comment: "There is talk we have reached the beginning of a bear market in equities, but to be honest that is all going to depend on what happens on Wall Street, not so much on fluctuations here."

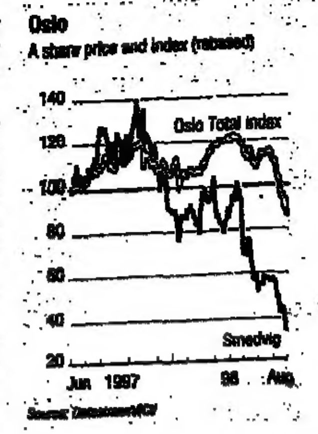
The market has been hit by some mixed first-half results and a realisation among analysts that their earnings forecasts were wildly over-optimistic, particularly in the paper and engineering sectors.

Of the weakest performers, medical technology group Gambro has seen its shares slide 36 per cent in the past month, closing down SKr1.50 at SKr91 yesterday.

By comparison, Copenhagen has looked healthier. The bourse was down almost 3 per cent yesterday. The Danish krone has stabilised following central bank intervention earlier in the week, and the pressure on equities has been offset by better-than-expected results from several large companies.

"The market and currency is following our neighbours down, but not so grievously," said one Copenhagen broker. "It has been pretty wild in the Nordics for the past couple of days – the best we can hope for is a period of calm."

**Tim Burt**




# Bears show no mercy to Wall Street

**AMERICAS**

Investors continued to bail out of US shares as concerns grew about Russia, and the Dow Jones Industrial Average tumbled more than 350 points in late-morning trade, *writes John Labate in New York.*

Bearish investors spared few sectors, with blue chips, financials, technology and small-company shares all taking sizeable hits.

Trading worsened after Republic New York, the 21st largest US bank, said it would incur more than $155m in charges in the third quarter due to Russian market exposure. Republic's shares plunged $4 or almost 8 per cent to $46¼.

"Republic is a stark reminder that this is real, and will impact sales and earnings of companies," said Hugh Johnson, chief investment officer at First Albany.

By early afternoon the Dow was off 265.96, a fall of 3.1 per cent, to 8,257.39. The broader Standard & Poor's 500 index fell 34.57 to 1,049.62. The Nasdaq composite, which is heavily weighted in technology shares, was down 78.31 or 4.4 per cent to 1,689.82 while the Russell 2000 index of small-cap shares fell 15.31 to 365.11.

US Treasuries soared as stocks plunged, with the benchmark long bond up $\frac{3}{8}$ to 101$\frac{13}{32}$, sending the yield to record lows at 5.369 per cent.

In spite of the widespread early sell-off, traders said the pace did not suggest that investors were panicking.

Banking shares were down across the board, sending the Philadelphia Stock Exchange's banking index down 5.4 per cent to 702.12. Among the hardest fallers, Chase Manhattan fell 7.5 per cent to $59$\frac{7}{8}$ and J.P. Morgan plunged $7$\frac{3}{8}$ to $110¾.

Cendant shares plunged almost 13 per cent to $12$\frac{11}{16}$ after the troubled company made new announcements about its financial reporting policies.

Starward Hotels fell $3$\frac{1}{16}$ or more than 7 per cent to $39$\frac{1}{8}$ after it announced a $1.2bn charge and restructuring. Other real estate investment trusts took a tumble, with Patriot America down more than 5 per cent to $15¾.

Computer-related shares also fell back, sending the Pacific Stock Exchange's technology index off 4.7 per cent to 319.63. Shares of Cisco Systems were down $3$\frac{13}{16}$ to $99$\frac{1}{2}$.

TORONTO plunged as well as the central bank tried to support the faltering Canadian dollar by raising interest rates, and the TSE 300 lost 325.70 or 5.3 per cent to 5,846.60.

The key interest rate was increased by 1 percentage point to 6 per cent, while the leading commercial banks followed by raising their prime lending rates. Shares dropped more than 8 per cent at one point, but regained ground on bargain-hunting.

Commodity-based stocks were lower with oil and gas down 5.9 per cent with Talisman Energy down C$3.35 or 10 per cent to C$28.65 and Canadian Occidental Petroleum losing C$2.15 or more than 9 per cent to C$21.

Metals and minerals were down more than 6 per cent while gold and precious minerals lost 5.4 per cent.

# São Paulo down 7.3%

Deepening fears of a spreading Russian contagion hurt Latin American markets. SAO PAULO was among the hardest hit, with the Bovespa falling 540 or 7.3 per cent to 6,808.

Government officials tried to alleviate concerns among investors. The finance ministry's economic policy secretary said the latest plunge in Brazilian shares would not hurt the local economy.

Telebrás, which accounts for about half of overall trading, fell R$6.90 or 7.3 per cent to R$88.10 while Eletrobrás declined R$2.70 or 12.3 per cents to R$19.30.

*BUENOS AIRES* was hit by banking and steel stocks with the Merval index down 29.58 or 7.3 per cent to 374.43.

Banco Galicia fell 0.525 pesos to 2.975 pesos while Siderca, the steelmaker, lost 0.118 pesos to 1.062 pesos.

CARACAS tumbled to a 29-month low with the IBC index down 240.80 or 7.5 per cent to 2,985.11.

# Financials lead Frankfurt fall

**EUROPE**

The worsening economic situation in Russia and increasing Latin American worries sent FRANKFURT, and much of the rest of Europe, sharply lower.

The Xetra Dax index closed 234.89 down at the day's low of 5,012.73, compared with the Dax's floor close of 5,060.84.

Financials led the slide. Bayerische Vereinsbank, a recent outperformer, was the hardest hit, losing DM16.3 to DM141.50. Deutsche Bank shed DM8.90 to DM113.30, Dresdner was DM2.74 lower at DM85.15 and Commerzbank lost DM1.60 to DM52.50.

SAP closed down DM75.10 at DM1,042 following news that it was being sued in the US by FoxMeyer over the alleged misrepresentation of a software system.

**THE DAY'S CHANGES**

| | % Change |
|---|---|
| Moscow | -17.0 |
| Madrid | -5.8 |
| Zurich | -5.1 |
| Frankfurt | -4.5 |
| Milan | -4.5 |
| Paris | -4.3 |
| Stockholm | -4.0 |
| Amsterdam | -2.2 |

PARIS extended its early losses as Wall Street opened lower and by the close, the CAC 40 index was down 167.53 at 3,745.64. Turnover of FFr13.7bn was higher than that seen in recent sessions.

France Telecom tumbled FFr31 or 6.5 per cent to FFr446 in volume of FFr1.3bn, making it the most traded stock of the session.

Among other index-heavy shares to be sold off, Alcatel Alsthom lost FFr84 or 7.7 per cent to 1,010 and Vivendi closing 16 lower at 1,197.

Financials were sharply lower, with Société Générale falling FFr50 or 5.1 per cent to FFr1,108, BNP down FFr22.90 at FFr404 and Paribas FFr11 lower at FFr529.

The tumble came after Lehman Brothers recommended an overweight position in the French bank sector on the view that the market was putting excessive discounts on concerns over the Russia exposure.

ZURICH plunged as the banks and other financials were sold down and the SMI index lost 367.4 to 6,845.0.

CS Group, which said earlier in the week that global market turmoil had lopped around $250m from its CSFB investment bank's profits since the end of the first half, lost SFr23.50 or 8.3 per cent to SFr261.50 in huge turnover of $1.2bn. UBS lost SFr27 or 5.2 per cent to SFr497 in trade of SFr770m.

Swiss Re was even harder hit, tumbling SFr358 to SFr3,122, ahead of its release of first-half results next Wednesday, and Zurich lost SFr91 to SFr870, falls described by one analyst as "totally exaggerated".

Among the pharmaceuticals, Novartis made a good start to the day on the back of first-half profit figures which met most expectations. But by the close, the shares were marked down SFr66 to SFr2,341.

ABB, down SSFr90 to SFr1,685, and Holderbank, SFr71 lower at SFr1,499, were both hit by concerns about Latin America.

AMSTERDAM fell, led by financials, with the AEX index losing 24.74 to 1,133.56.

ING fell Fl 6.10 to Fl 123.80 in spite of its first-half results, which showed a 74 per cent rise in net profits. Philips declined Fl 8.10 to Fl 135.50 on its announcement earlier this week that its PCC telecoms joint venture was unlikely to reach break-even this year.

MADRID was hit by fears over Latin American exposure, and the general index closed down 47.12 or 5.8 per cent to 762.10.

Fears that the Russian turmoil would hit Latin America continued to hurt companies with extensive ties and investments in the region.

BCH fell Pta170 or 10 per cent to Pta1,540, Banco Bilbao Vizacaya lost Pta110 or 5.2 per cent to Pta1,995 and Santander declined Pta260 or 8.6 per cent to Pta2,770. Telefónica lost Pta400 or 6.2 per cent to Pta6,030.

MILAN tumbled led by stocks regarded as exposed to Latin America and Russia, and the Mibtel index fell 1,013 to 21,999.

Banca Commerciale Italiana, which is seen as exposed to Latin America, lost L1,014 or almost 8 per cent to L11,867. Pirelli, also involved in the region, fell L315 or 6 per cent to L4,793.

Fiat, with a joint venture in Russia, declined L396 or 6.5 per cent to L5,686.

VIENNA was shaken by fears of the negative impact on its key export markets in central and eastern Europe, and the ATX index fell 62.66 or 5 per cent to 1,191.99.

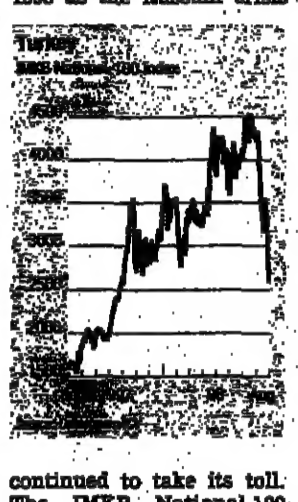
Leading blue chips were down. Bank Austria, the largest bank, lost Sch60 or 7.9 per cent to Sch700, and oil group OMV declined Sch47.50 to Sch1,107.50.

WARSAW fell to a 22-month low on foreign selling, and the Wig index fell 841.70 to 13,001.40.

Softbank fell 4 zlotys to 60.50 zlotys while Elektrim lost 2.10 zlotys to 37 zlotys.

ATHENS came under severe pressure, registering one of its largest ever falls, with many equities finishing at or near their lower daily volatility limits. The general index plunged 190.42 or 7.7 per cent at 2,281.33.

ISTANBUL plummeted more than 13 per cent to end just off its lowest levels for 1998 as the Russian crisis continued to take its toll. The IMKB National-100 index, down 8 per cent on Wednesday, plummeted another 393.26 to 2,603.99, 43 per cent below the all-time closing high in July.




Written and edited by Michael Morgan, Emiko Terazono, Paul Gregen and Peter Hall

## Moscow plunges by another 17%

Moscow continued to plummet with the Russian Trading System's RTS1-Interfax index falling 17 per cent to close at its lowest recorded level since it was introduced in September 1995. The index lost 13.067 to 63.195 as the crisis facing the country grew by the hour.

BUDAPEST received another thrashing from heavy, panic selling with the Bux index falling 918.40 or 14.4 per cent to 5,467.96, the market's second largest one-day fall.

**SOUTH AFRICA**

Johannesburg remained under a Russian cloud as R59bn was wiped from its market capitalisation.

The overall index, down 6 per cent on Wednesday, tumbled another 313.4 or 5.7 per cent to 5,218.6. Industrials lost 6 per cent to 6,106.3 while financials were down 9.2 per cent to 8,292.

Against the trend, golds managed a 0.6 per cent advance to 784.7.

# Tokyo tumbles to 6-year nadir

**ASIA PACIFIC**

The falls in other major equity markets and renewed jitters about the Japanese financial sector sent TOKYO plunging to a six-year low, *writes Gillian Tett.*

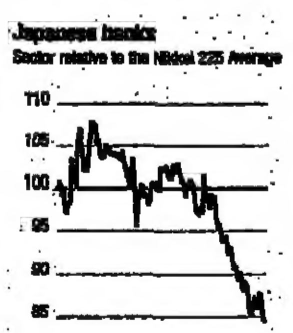
The Nikkei 225 average fell 452.24 or 3 per cent to close at 14,413.79. This was the lowest post-bubble close since August 18 1992, when the market fell to 14,309.41.

During the day, the index briefly touched 14,378.67 and traders warned that the market could soon fall through the post-bubble era record. At its best, the index reached 14,794.41. Losing issues crushed winners 1,030 to 144 with 114 unchanged.

The Topix index also slumped to a six-year low of 1,116.97, down 30.24 or 2.6 per cent. Volume on the Tokyo Stock Exchange was around 500m shares, up from 412m on Wednesday.

One reason for the slump, analysts said, was the decline in European and US markets the previous day. There is also alarm about the financial sector – above all, the political deadlock that is now hampering any rapid response to the banking problems.

The share prices of all 19 major banks tumbled for a second day. The sector as a whole dropped 3 per cent, leaving it 49 per cent below its level a year ago and 39 per cent below this year's peak in February.




The Long Term Credit Bank of Japan, which recently unveiled a restructuring plan in a bid to win an injection of public funds, fell Y5 to Y52. Sumitomo Trust, which is considering merging with LTCB, fell Y29 to Y364. Bank of Tokyo Mitsubishi dropped Y51 to Y1,095.

KUALA LUMPUR tumbled as Mahathir Mohamad, the prime minister, announced a 7 per cent contraction in second-quarter gross domestic product figures, triggering a 10.98 or 3.4 per cent decline of the composite index to 323.09. The GDP figure, which follows a 1.8 per cent contraction in the first quarter, confirms the economy is officially in a recession.

Tenaga Nasional fell 8 cents to M$2.18 while Telekom Malaysia lost 20 cents to M$5.80.

HONG KONG closed higher after a battle between speculative sellers and the government, which continued to buy aggressively in the market.

The Hang Seng index added 88.75 to 7,922.87, extending to 19 per cent its rise since August 14, when the monetary authority began to buy stocks and index futures in the market to fend off currency speculators. The day's turnover of HK$23bn was the highest since last November.

*JAKARTA* fell 1.7 per cent as investors braced themselves for poor first-half results that have to be announced by listed companies by the end of the month. The composite index fell 5.98 to 354.95 as the market remained beset by high domestic interest rates.

MANILA fell to a 68-month low as reports of a row between the Philippine defence chief and top generals prompted speculation about an impending coup. The composite index lost 20.03 to 1,266.99.

SINGAPORE closed at another 10-year low in response to worse-than-expected interim results from NatSteel on Wednesday and as investors braced themselves for dismal half-year figures from Cycle & Carriage delivered after hours.

The Straits Times Industrial Average lost 14.97 at 910.88 as C&C fell 29 cents to S$2.89 and NatSteel gave up 17 cents to S$1.82.

SYDNEY was hit by the further slump in the Australian dollar, and the All Ordinaries index closed down 47.40 or almost 2 per cent at 2,560.60.

Brambles Industries, which announced a 16.5 per cent rise in net profits for the year, fell 71 cents or over 2 per cent to A$34.40 while utilities group AGL fell 21 cents to A$9.77.

WELLINGTON retreated as pessimism over global markets weighed on share prices, and the NZSE-40 index fell 32.23 or 1.7 per cent to 1,910.83.

Sentiment was also hit as interest rates edged up. Most blue chips fell, with Telecom down 7 cents to NZ$8, and Paper 8 cents to NZ$1.44.